

Office of the Legislative Auditor

State of Montana



Report to the Legislature

December 1991

Financial Audit

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Statewide Audit

Report on the Examination of the State of Montana
General Purpose Financial Statements
For the Fiscal Year Ended June 30, 1991

This report contains the audited general purpose financial
statements for the State of Montana.

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The Single Audit Act of 1984 and OMB Circular A-128 require the auditor to issue certain financial, internal control, and compliance reports regarding the state's federal financial assistance programs, including all findings of noncompliance and questioned costs. This individual agency audit report is not intended to comply with the Single Audit Act of 1984 or OMB Circular A-128 and is therefore not intended for distribution to federal grantor agencies. The Office of the Legislative Auditor issues a statewide biennial Single Audit Report which complies with the reporting requirements listed above. The Single Audit Report for the two fiscal years ended June 30, 1989 has been issued. Copies of the Single Audit Report can be obtained by contacting:

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Helena, MT 59620

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STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
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Operations and EDP Audit
JAMES GILLET
Financial-Compliance Audit
JIM PELLEGRINI
Performance Audit

LEGISLATIVE AUDITOR:
SCOTT A. SEACAT

LEGAL COUNSEL:
JOHN W. NORTHEY

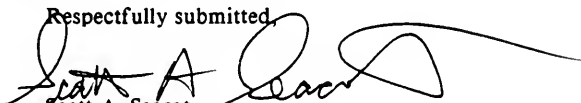
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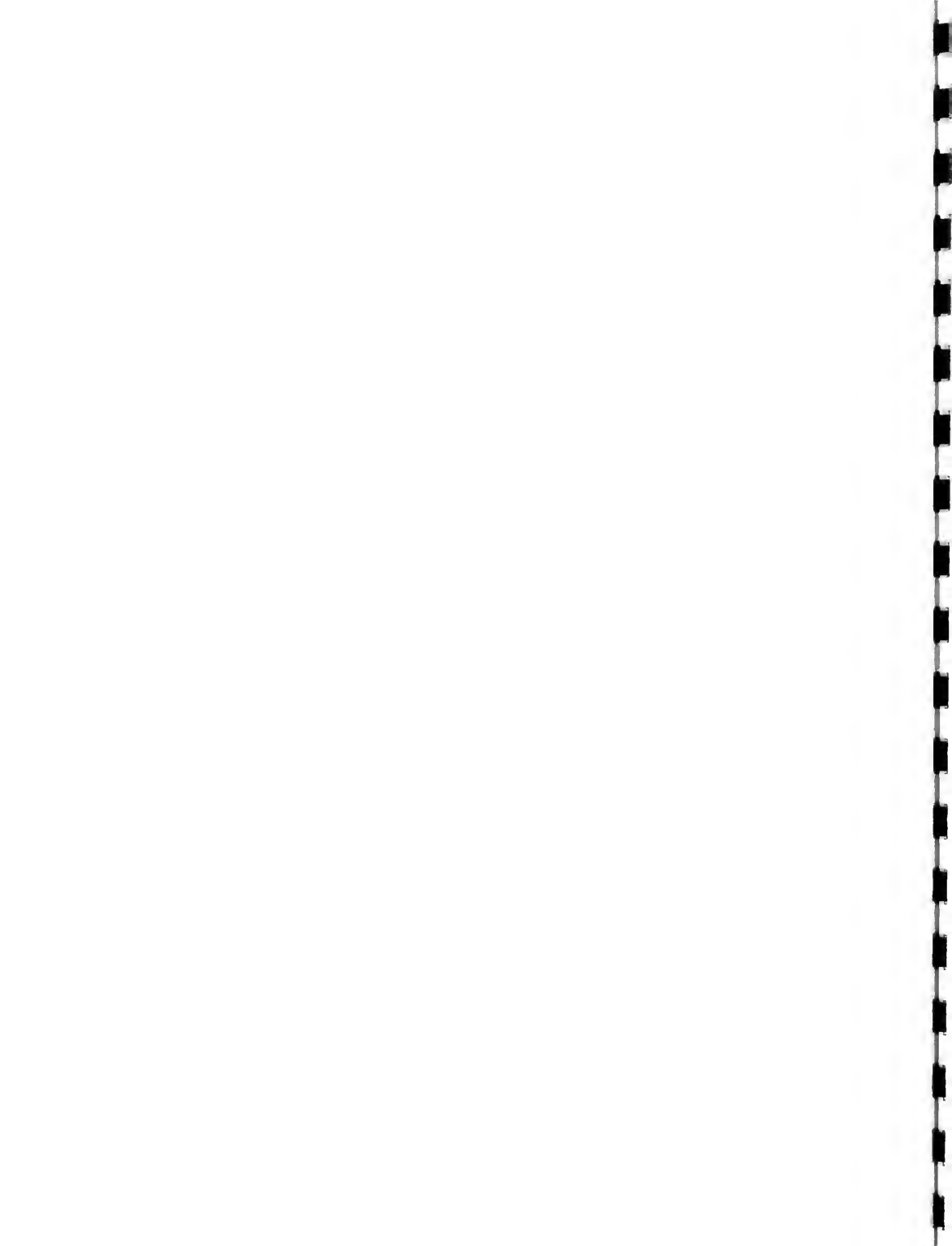
The Legislative Audit Committee
of the Montana State Legislature:

This audit report contains our independent auditor's report on the general purpose financial statements of the state of Montana for the fiscal year ended June 30, 1991. We performed the audit solely to express an opinion on the state's general purpose financial statements. Any findings disclosed by our audit were discussed with appropriate management personnel and will be appropriately reported as part of our scheduled biennial audits of state agencies.

We would like to thank the director of the Department of Administration and his staff for their cooperation and assistance throughout the audit.

Respectfully submitted,


Scott A. Seacat
Legislative Auditor



Office of the Legislative Auditor

Financial Audit

For the Fiscal Year Ended June 30, 1991

Statewide Audit

Audit staff involved in the Statewide Audit include: Mark C. Barry, Jody Bisom, Peter R. Brustkern, Shawn Bubb, Rebecca Dorwart, John Fine, Renee Foster, Tori Hunthausen, GERALYN Hoffman, Charles V. Jensen, Maureen G. McHugh, Paul J. O'Loughlin, Vickie Rauser, and Catherine L. Scarff.

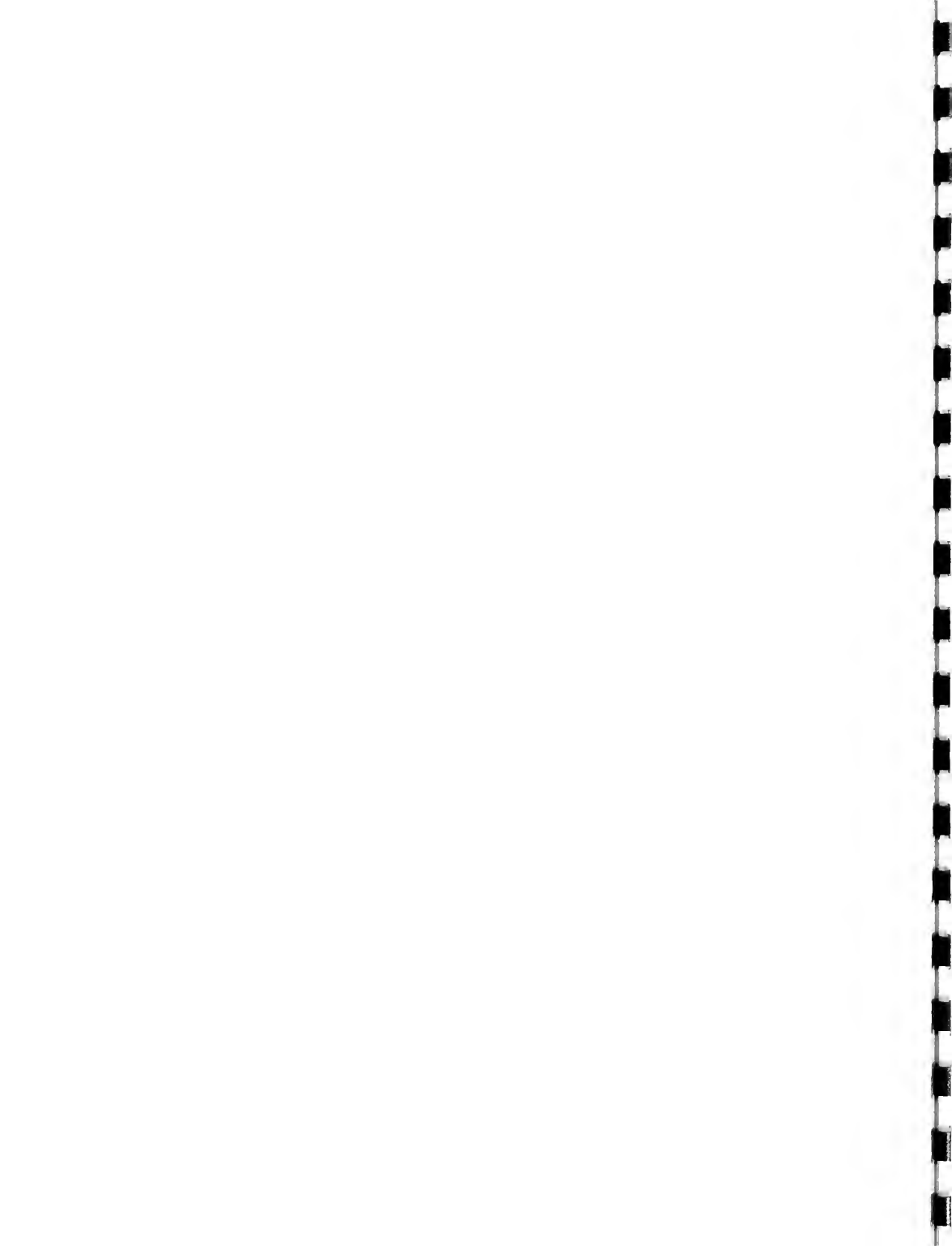


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Elected and Administrative Officials

State of Montana

Stan Stephens, Governor

Department of Administration

Robert L. Marks, Director

Charles M. Virag, Administrator
Accounting and Management Support Division

Connie L. Griffith, Chief
Accounting Bureau

Introduction

Introduction

We performed a financial audit of the state of Montana for the fiscal year ended June 30, 1991. The objective of the audit was to determine if the state's general purpose financial statements present fairly its financial position at June 30, 1991, and the results of its operations and its cash flows for the fiscal year then ended. Results of compliance testing are reported in the regularly scheduled biennial audits of each state agency.

Background

The state of Montana has published annual audited general purpose financial statements (GPFS) since fiscal year 1983-84. The general purpose financial statements are contained in the Montana Comprehensive Annual Financial Report (CAFR) prepared annually by the Accounting Bureau, Department of Administration.

Financial information in the GPFS is prepared from Montana's Statewide Budgeting and Accounting System (SBAS) with adjustments. SBAS is a centrally maintained, computerized accounting system. State law allows agencies to record encumbrances as expenditures and liabilities on the accounting records for budgetary control purposes. SBAS financial data included in the GPFS have been adjusted for encumbrances which are required by generally accepted accounting principles to be reported as a reservation of fund balance. In addition, SBAS amounts are adjusted to eliminate intrafund revenue and expenditure transactions and for accounting errors identified either by the Accounting Bureau or by audit.

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the state of Montana for its CAFR for the fiscal year ended June 30, 1990. This was the fourth consecutive year that Montana received this award. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized CAFR, whose contents conform to program

Introduction

standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

Department of Administration officials believe the current CAFR continues to conform to the Certificate of Achievement Program and the department expects to submit it to GFOA before December 31, 1991 to determine the state's eligibility for another certificate. The CAFR will be available for general distribution in January 1992.

Independent Auditor's Report & General Purpose Financial Statements

Summary of Independent Auditor's Report

Summary of Independent Auditor's Report

The auditor's opinion issued on the general purpose financial statements contained in this report is intended to convey to the reader the degree of reliance which can be placed on the amounts presented. The reader may rely on the fairness of the amounts on the statements presented on pages 6 through 50 when analyzing the financial position and operations of the state of Montana.



STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122

LEGISLATIVE AUDITOR:
SCOTT A. SEACAT

LEGAL COUNSEL:
JOHN W. NORTHEY

INDEPENDENT AUDITOR'S REPORT

DEPUTY LEGISLATIVE AUDITORS:

MARY BRYSON
Operations and EDP Audit

JAMES GILLETT
Financial-Compliance Audit

JIM PELLEGRINI
Performance Audit

We have audited the accompanying general purpose financial statements of the state of Montana, as of June 30, 1991, and for the year then ended, as listed in the table of contents. These general purpose financial statements are the responsibility of the state of Montana management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of the Montana Board of Housing which statements reflect total assets, liabilities, revenues, and expenses of 75.2 percent, 47.9 percent, 20.1 percent, and 10.3 percent, respectively, of the related Enterprise Fund. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Montana Board of Housing is based solely on the report of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the state of Montana, as of June 30, 1991, and the results of its operations and the cash flows of its proprietary and nonexpendable trust fund types for the year then ended in conformity with generally accepted accounting principles.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "James Gillett".

James Gillett, CPA
Deputy Legislative Auditor

November 4, 1991, except for
Note 22 as to which the date
is November 21, 1991.

STATE OF MONTANA
Combined Balance Sheet
All Fund Types and Account Groups
June 30, 1991
(Expressed in Thousands)

	GOVERNMENTAL FUND TYPES				PROPRIETARY FUND TYPES	
	GENERAL	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS	ENTERPRISE	INTERNAL SERVICE
ASSETS/OTHER DEBITS						
Assets:						
Cash/Cash Equivalents (Note 4)	\$ 12,451	\$ 210,129	\$ 36,456	\$ 8,984	\$ 66,733	\$ 10,703
Receivables (Net of Uncollectibles)	21,301	29,037	2,581	140	72,681	252
Interfund Loans Receivable (Note 14)	56,831	44,430	-	50	15	-
Due from Other Governments	36	95,920	-	2	-	24
Due from Other Funds (Note 14)	29,185	47,427	70	50	6,382	4,130
Inventories	3,163	17,856	-	-	8,870	1,348
Equity in Pooled Investments (Note 4)	-	-	-	-	-	-
Long-Term Loans/Notes Receivable	-	7,975	29,314	27	490,746	3
Investments (Note 4)	-	3,901	4,945	-	204,004	4,671
Deferred (Gains) Losses	-	-	-	-	-	-
Land	-	-	-	-	690	236
Buildings/Improvements	-	-	-	-	3,782	17
Equipment	-	-	-	-	5,657	98,254
Other Fixed Assets	-	-	-	-	5	3
Construction in Progress	-	-	-	-	17	2,515
Accumulated Depreciation	-	-	-	-	(4,133)	(48,704)
Intangible Assets	-	-	-	-	273	516
Deferred Charges	-	-	-	-	9,930	84
Other Assets	741	1,944	45	11	9,849	240
Other Debits:						
Amount Available - Debt Service Funds	-	-	-	-	-	-
Amount to be Provided from Long-Term Loans	-	-	-	-	-	-
Resources to be Provided in Future Years	-	-	-	-	-	-
TOTAL ASSETS/OTHER DEBITS	\$123,708	\$ 458,619	\$ 73,411	\$ 9,264	\$ 875,501	\$ 74,292
LIABILITIES/EQUITY/OTHER CREDITS						
Liabilities:						
Accounts Payable	\$ 22,718	\$ 65,143	\$ 986	\$ 130	\$ 12,678	\$ 2,188
Lottery Prizes Payable	-	-	-	-	444	-
Interfund Loans Payable (Note 14)	12,700	83,188	-	50	15	364
Due to Other Governments	1	2,745	-	-	-	-
Due to Other Funds (Note 14)	12,123	29,631	5,337	74	4,827	1,581
Deferred Revenue	11,708	25,765	711	20	3,743	533
Installment Purch/Lease Payable (Note 12)	-	-	-	-	2	5,796
Bonds/Notes Payable (Net) (Note 13)	-	-	-	-	662,272	3,475
Property Held in Trust	376	1,613	-	10	17,273	59
Compensated Absences Payable (Note 1)	-	-	-	-	1,017	1,754
Estimated Claims (Notes 7/10)	-	-	-	-	534,295	2,337
Arbitrage Rebate Tax Payable	-	-	-	-	277	-
Other Liabilities	-	-	-	-	-	-
Total Liabilities	59,626	208,085	7,034	284	1,236,843	18,087
Equity/Other Credits:						
Investment in General Fixed/Plant Assets	-	-	-	-	-	-
Contributed Capital (Note 18)	-	-	-	-	14,987	2,862
Retained Earnings:						
Reserved (Note 16)	-	-	-	-	77,440	2,810
Unreserved	-	-	-	-	(453,769)	50,533
Fund Balances:						
Reserved for Encumbrances	2,219	22,844	-	-	-	-
Reserved for Inventories	3,163	17,856	-	-	-	-
Reserved for Long-Term Loans	-	7,975	29,314	27	-	-
Reserved for Debt Service	-	-	37,063	-	-	-
Reserved for Trusts/Endowments	-	3,348	-	-	-	-
Reserved for Retirement Systems	-	-	-	-	-	-
Unreserved, undesignated	58,700	198,511	-	8,953	-	-
Total Equity/Other Credits	64,082	250,534	66,377	8,980	(361,342)	56,205
TOTAL LIABILITIES/EQUITY/OTHER CREDITS	\$123,708	\$ 458,619	\$ 73,411	\$ 9,264	\$ 875,501	\$ 74,292

The notes to the financial statements are an integral part of this statement.

FIDUCIARY FUND TYPES		ACCOUNT GROUPS			TOTALS - JUNE 30 (MEMORANDUM ONLY)	
TRUST AND AGENCY	GENERAL FIXED ASSETS	GENERAL LONG-TERM OBLIGATIONS	HIGHER EDUCATION FUNDS		1991	1990
\$ 770,881	\$ -	\$ -	\$ 47,783	\$ 1,164,120	\$ 1,126,138	
66,954	-	-	27,996	220,942	179,186	
905	-	-	1,650	103,881	64,825	
16	-	-	1,212	97,210	80,687	
27,705	-	-	8,539	123,488	113,453	
-	-	-	4,488	35,725	40,034	
314,901	-	-	332	315,233	199,739	
41,200	-	-	1,143	570,408	531,583	
2,165,606	-	-	13,252	2,396,379	2,357,698	
10,788	-	-	-	10,788	15,761	
49,459	52,574	-	11,110	114,069	113,092	
355	227,543	-	278,532	510,229	493,161	
187	82,254	-	87,180	273,532	262,496	
-	43,558	-	56,513	100,079	94,032	
-	4,710	-	2,752	9,994	10,270	
(279)	-	-	-	(53,116)	(47,418)	
5	-	-	1,440	2,234	1,872	
-	-	-	-	10,014	10,326	
29,190	-	-	3,117	45,137	44,655	
-	-	37,063	-	37,063	37,349	
-	-	29,314	-	29,314	27,618	
-	-	243,698	-	243,698	249,491	
<u>\$ 3,477,873</u>	<u>\$ 410,639</u>	<u>\$ 310,075</u>	<u>\$ 547,039</u>	<u>\$ 6,360,421</u>	<u>\$ 6,006,048</u>	
=====	=====	=====	=====	=====	=====	
\$ 19,926	\$ -	\$ -	\$ 20,193	\$ 143,962	\$ 128,984	
-	-	-	-	444	646	
5,914	-	-	1,650	103,881	64,825	
229,620	-	-	39	232,405	160,127	
61,323	-	-	8,592	123,488	113,453	
350	-	-	3,628	46,458	48,186	
-	-	2,338	2,552	10,688	8,194	
-	-	275,783	80,875	1,022,405	990,603	
350,822	-	-	3,120	373,273	362,717	
79	-	29,016	16,899	48,765	45,533	
-	-	-	-	536,632	301,701	
-	-	2,938	-	3,215	202	
2,223	-	-	17	2,240	2,743	
<u>670,257</u>	<u>-</u>	<u>310,075</u>	<u>137,565</u>	<u>2,647,856</u>	<u>2,227,914</u>	
-	410,639	-	353,215	763,854	737,998	
-	-	-	-	17,849	6,498	
-	-	-	-	80,250	76,806	
-	-	-	-	(403,236)	(159,222)	
-	-	-	1,323	26,386	23,525	
-	-	-	-	21,019	21,169	
2,372	-	-	-	39,688	37,642	
-	-	-	16,953	54,016	55,312	
865,342	-	-	23,030	891,720	844,107	
1,855,654	-	-	-	1,855,654	1,688,891	
84,248	-	-	14,953	365,365	445,408	
<u>2,807,616</u>	<u>410,639</u>	<u>-</u>	<u>409,474</u>	<u>3,712,565</u>	<u>3,778,134</u>	
<u>\$ 3,477,873</u>	<u>\$ 410,639</u>	<u>\$ 310,075</u>	<u>\$ 547,039</u>	<u>\$ 6,360,421</u>	<u>\$ 6,006,048</u>	
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STATE OF MONTANA
Combined Statement of Revenues, Expenditures and Changes in Fund Balances
All Governmental Fund Types and Expendable Trust Funds
For the Fiscal Year Ended June 30, 1991
(Expressed in Thousands)

	GOVERNMENTAL FUND TYPES				FIDUCIARY FUND TYPE	TOTALS (MEMORANDUM ONLY) YEAR ENDED JUNE 30	
	GENERAL	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS	EXPENDABLE TRUST	1991	1990
REVENUES:							
Licenses/Permits	\$ 20,176	\$ 53,976	\$ -	\$ -	\$ -	\$ 74,152	\$ 55,229
Taxes:							
Gas/Oil/Coal Production	27,929	58,742	25,707	-	-	112,378	77,352
Individual Income	142,283	115,934	24,744	-	-	282,961	279,642
Corporate Income	40,322	27,057	6,941	-	-	74,320	80,316
Other (Note 1)	52,832	328,826	9,313	3,427	-	394,398	339,058
Charges for Services/Fines/Forfeits	20,087	23,330	198	63	1	43,679	60,434
Investment Earnings	22,404	5,233	3,388	630	7,929	39,584	44,906
Sale of Documents/Mdse./Property	186	15,477	1,483	-	-	17,146	5,548
Rentals/Leases/Royalties	299	229	-	-	-	528	363
Contributions/Premiums	-	4,113	-	-	39,195	43,308	46,049
Grants/Contracts/Donations	-	6,995	-	9	24	7,028	8,523
Federal	25	531,770	150	299	3,076	535,320	453,902
Federal Indirect Cost Recoveries	215	1,608	-	-	-	1,823	1,790
Other Revenues	438	1,276	627	26	-	2,367	2,085
Total Revenues	327,196	1,174,566	72,551	4,454	50,225	1,628,992	1,455,197
Intrafund Revenues	(81)	(45,642)	(374)	-	-	(46,097)	(12,963)
Net Revenues	327,115	1,128,924	72,177	4,454	50,225	1,582,895	1,442,234
EXPENDITURES:							
Current:							
General Government	57,693	53,832	45	-	-	111,570	54,402
Public Safety/Corrections	43,956	43,165	-	-	-	87,121	80,804
Transportation	574	279,842	-	-	644	281,060	259,929
Health/Social Services	156,639	326,225	-	-	-	482,864	405,008
Education/Cultural	57,842	383,550	-	-	17	441,409	335,911
Resource Development/Recreation	14,877	48,524	-	25	-	63,426	55,100
Economic Development/Assistance	6,381	79,891	-	-	47,443	133,715	117,971
Debt Service:							
Principal Retirement	730	86	12,428	-	-	13,244	12,268
Interest/Fiscal Charges	406	402	20,303	-	-	21,111	21,186
Capital Outlay	3,033	17,292	-	3,931	-	24,256	33,581
Total Expenditures	342,131	1,232,809	32,776	3,956	48,104	1,659,776	1,376,160
Intrafund Expenditures	(81)	(45,642)	(374)	-	-	(46,097)	(12,963)
Net Expenditures	342,050	1,187,167	32,402	3,956	48,104	1,613,679	1,363,197
Excess of Revenues Over (Under) Expenditures	(14,935)	(58,243)	39,775	498	2,121	(30,784)	79,037
OTHER FINANCING SOURCES (USES):							
Loan Proceeds	-	118	-	-	-	118	-
Bond Proceeds	-	3,345	-	-	-	3,345	13,858
Proceeds of Refunding Bonds	-	9,625	-	-	-	9,625	-
Payments to Refunded Bond Escrow Agent	-	-	(9,625)	-	-	(9,625)	-
Inception of Lease/Installment Contract	602	22	-	-	-	624	869
General Fixed Asset Sale Proceeds	75	80	-	-	-	155	562
Operating Transfers In (Note 14)	97,079	65,607	35,716	1,061	18	199,481	198,910
Operating Transfers Out (Note 14)	(115,647)	(49,670)	(67,836)	(2,092)	(11)	(235,256)	(259,027)
Total Other Financing Sources (Uses)	(17,891)	29,127	(41,745)	(1,031)	7	(31,533)	(44,828)
Excess of Revenues/Other Sources Over (Under) Expenditures/Other Uses	(32,826)	(29,116)	(1,970)	(533)	2,128	(62,317)	34,209
FUND BALANCES - JULY 1 - As Previously Reported	95,074	286,184	64,989	9,513	95,079	550,839	502,556
Prior Period Adjustments (Note 3)	948	(2,157)	17	-	(10,587)	(11,779)	(1,298)
FUND BALANCES - July 1 - As Restated	96,022	284,027	65,006	9,513	84,492	539,060	501,258
Increase (Decrease) in Inventories	(227)	77	-	-	-	(150)	1,065
Residual Equity Transfers (Note 14)	1,113	(4,454)	3,341	-	-	-	14,307
FUND BALANCES - JUNE 30	\$ 64,082	\$ 250,534	\$ 66,377	\$ 8,980	\$ 86,620	\$ 476,593	\$ 550,839

The notes to the financial statements are an integral part of this statement.

STATE OF MONTANA
Combined Statement of Revenues, Expenditures, Other Financing Sources (Uses)
and Reconciliation of Budget and Actual (Budgetary Basis) to GAAP Basis
General and Special Revenue Fund Types
For the Fiscal Year Ended June 30, 1991
(Expressed in Thousands)

	GENERAL FUND			SPECIAL REVENUE FUNDS		
	BUDGET	ACTUAL	VARIANCE - FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL	VARIANCE - FAVORABLE (UNFAVORABLE)
REVENUES:						
Licenses/Permits	\$ 18,003	\$ 20,176	\$ 2,173	\$ 53,076	\$ 53,976	\$ 900
Taxes:						
Gas/Oil/Coal Production	23,836	27,929	4,093	50,435	58,742	8,307
Individual Income	153,205	142,283	(10,922)	126,547	115,934	(10,613)
Corporate Income	40,834	40,322	(512)	25,537	27,057	1,520
Other Taxes	47,721	52,832	5,111	325,202	328,826	3,624
Charges for Services/Fines/Forfeits	16,334	20,087	3,753	24,456	23,330	(1,126)
Investment Earnings	19,881	22,404	2,523	5,368	5,233	(135)
Sale of Documents/Merchandise/Property	174	186	12	16,208	15,477	(731)
Rentals/Leases/Royalties	114	299	185	229	229	-
Contributions/Premiums	-	-	-	1,817	4,113	2,296
Grants/Contracts/Donations	-	-	-	7,261	6,995	(266)
Federal	23	25	2	562,712	531,770	(30,942)
Federal Indirect Cost Recoveries	102	215	113	1,667	1,608	(59)
Other Revenues	357	438	81	1,223	1,276	53
Total Revenues	320,584	327,196	6,612	1,201,738	1,174,566	(27,172)
EXPENDITURES:						
Current:						
General Government	63,512	57,341	6,171	94,928	53,872	41,056
Public Safety/Corrections	45,235	44,043	1,192	48,229	43,194	5,035
Transportation	680	539	141	286,760	281,221	5,539
Health/Social Services	162,656	157,357	5,299	350,144	326,348	23,796
Education/Cultural	58,528	57,901	627	387,071	382,615	4,456
Resource Development/Recreation	15,279	14,934	345	75,723	52,207	23,516
Economic Development/Assistance	6,767	6,395	372	96,771	81,187	15,584
Debt Service:						
Principal Retirement	689	689	-	85	85	-
Interest/Fiscal Charges	406	406	-	402	402	-
Capital Outlay	2,536	3,060	(524)	16,563	16,452	111
Total Expenditures	356,288	342,665	13,623	1,356,676	1,237,583	119,093
Excess of Revenues Over (Under) Expenditures	(35,704)	(15,469)	20,235	(154,938)	(63,017)	91,921
OTHER FINANCING SOURCES (USES):						
Loan Proceeds	-	-	-	3,024	118	(2,906)
Bond Proceeds	-	-	-	3,345	3,345	-
General Fixed Asset Sale Proceeds	85	75	(10)	16	80	64
Operating Transfers In	102,174	97,079	(5,095)	117,513	109,970	(7,543)
Operating Transfers Out	(150,309)	(115,825)	34,484	(109,847)	(94,129)	15,718
Total Other Financings Sources (Uses)	(48,050)	(18,671)	29,379	14,051	19,384	5,333
Excess of Revenues/Other Sources Over (Under) Expenditures/Other Uses (Budgetary Basis)	(83,754)	(34,140)	49,614	(140,887)	(43,633)	97,254
RECONCILIATION OF BUDGETARY/GAAP REPORTING:						
1. Adjust expenditures for encumbrances.	-	(79)	(79)	-	4,344	4,344
2. Adjustments for appropriated loans/ other nonbudgeted activity.	-	1,393	1,393	-	10,172	10,172
Excess of Revenues/Other Sources Over (Under) Expenditures/Other Uses (GAAP Basis)	(83,754)	(32,826)	50,928	(140,887)	(29,117)	111,770
Unreserved Fund Balances - July 1	89,038	89,038	-	241,164	241,164	-
Residual Equity Transfers	1,113	1,113	-	(4,454)	(4,454)	-
Prior Period Adjustments	-	948	948	-	(2,157)	(2,157)
Decrease (Increase):						
Encumbrances Reserve	-	38	38	-	(2,925)	(2,925)
Long-Term Loans Reserve	-	389	389	-	(652)	(652)
Trusts/Endowments Reserve	-	-	-	-	(3,348)	(3,348)
Unreserved Fund Balances - June 30	\$ 6,397	\$ 58,700	\$ 52,303	\$ 95,823	\$ 198,511	\$ 102,688

The notes to the financial statements are an integral part of this statement.

(Continued on Next Page)

STATE OF MONTANA

Combined Statement of Revenues, Expenditures, Other Financing Sources (Uses)
and Reconciliation of Budget and Actual (Budgetary Basis) to GAAP Basis - Continued
General and Special Revenue Fund Types
For the Fiscal Year Ended June 30, 1991
(Expressed in Thousands)

	TOTALS (MEMORANDUM ONLY)		
	BUDGET	ACTUAL	VARIANCE - FAVORABLE (UNFAVORABLE)
REVENUES:			
Licenses/Permits	\$ 71,079	\$ 74,152	\$ 3,073
Taxes:			
Gas/Oil/Coal Production	74,271	86,671	12,400
Individual Income	279,752	258,217	(21,535)
Corporate Income	66,371	67,379	1,008
Other Taxes	372,923	381,658	8,735
Charges for Services/Fines/Forfeits	40,790	43,417	2,627
Investment Earnings	25,249	27,637	2,388
Sale of Documents/Merchandise/Property	16,382	15,663	(719)
Rentals/Leases/Royalties	343	528	185
Contributions/Premiums	1,817	4,113	2,296
Grants/Contracts/Donations	7,261	6,995	(266)
Federal	562,735	531,795	(30,940)
Federal Indirect Cost Recoveries	1,769	1,823	54
Other Revenues	1,580	1,714	134
Total Revenues	1,522,322	1,501,762	(20,560)
EXPENDITURES:			
Current:			
General Government	158,440	111,213	47,227
Public Safety/Corrections	93,464	87,237	6,227
Transportation	287,440	281,760	5,680
Health/Social Services	512,800	483,705	29,095
Education/Cultural	445,599	440,516	5,083
Resource Development/Recreation	91,002	67,141	23,861
Economic Development/Assistance	103,538	87,582	15,956
Debt Service:			
Principal Retirement	774	774	-
Interest/Fiscal Charges	808	808	-
Capital Outlay	19,099	19,512	(413)
Total Expenditures	1,712,964	1,580,248	132,716
Excess of Revenues Over (Under) Expenditures	(190,642)	(78,486)	112,156
OTHER FINANCING SOURCES (USES):			
Loan Proceeds	3,024	118	(2,906)
Bond Proceeds	3,345	3,345	-
General Fixed Asset Sale Proceeds	101	155	54
Operating Transfers In	219,687	207,049	(12,638)
Operating Transfers Out	(260,156)	(209,954)	50,202
Total Other Financing Sources (Uses)	(33,999)	713	34,712
Excess of Revenues/Other Sources Over (Under) Expenditures/Other Uses (Budgetary Basis)	(224,641)	(77,773)	146,868
RECONCILIATION OF BUDGETARY/GAAP REPORTING:			
1. Adjust expenditures for encumbrances.	-	4,265	4,265
2. Adjustments for appropriated loans/ other nonbudgeted activity.	-	11,565	11,565
Excess of Revenues/Other Sources Over (Under) Expenditures/Other Uses (GAAP Basis)	(224,641)	(61,943)	162,698
Unreserved Fund Balances - July 1	330,202	330,202	-
Residual Equity Transfers	(3,341)	(3,341)	-
Prior Period Adjustments	-	(1,209)	(1,209)
Decrease (Increase):			
Encumbrances Reserve	-	(2,887)	(2,887)
Long-Term Loans Reserve	-	(263)	(263)
Trusts/Endowments Reserve	-	(3,348)	(3,348)
Unreserved Fund Balances - June 30	\$ 102,220	\$ 257,211	\$ 154,991

The notes to the financial statements are an integral part of this statement.

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STATE OF MONTANA
Combined Statement of Revenues, Expenses and Changes in Retained Earnings/Fund Balances
All Proprietary Fund Types and Similar Trust Funds
For the Fiscal Year Ended June 30, 1991
(Expressed in Thousands)

	PROPRIETARY FUND TYPES		FIDUCIARY FUND TYPES		TOTALS (MEMORANDUM ONLY) YEAR ENDED JUNE 30	
	ENTERPRISE	INTERNAL SERVICE	NONEXPENDABLE TRUST	PENSION TRUST	1991	1990
OPERATING REVENUES:						
Charges for Services	\$ 94,296	\$ 54,902	\$ 4,802	\$ -	\$ 154,000	\$ 141,734
Investment Earnings	67,681	670	83,694	160,045	312,090	304,161
Contributions/Premiums	116,525	-	-	146,093	262,618	241,787
Taxes	9,385	-	5,715	-	15,100	22,121
Rentals/Leases/Royalties	-	-	20,141	-	20,141	20,443
Grants/Contracts/Donations	-	-	869	-	869	926
Other Operating Revenues	289	144	32	37	502	206
Total Operating Revenues	288,176	55,716	115,253	306,175	765,320	731,378
Intrafund Revenues	(41)	(254)	-	-	(295)	(351)
Net Operating Revenues	288,135	55,462	115,253	306,175	765,025	731,027
OPERATING EXPENSES:						
Personal Services	12,315	16,167	-	729	29,211	24,944
Contractual Services	13,178	4,746	-	372	18,296	16,211
Supplies/Materials	27,955	11,224	-	23	39,202	38,376
Expendable Equipment	14	48	-	4	66	35
Benefits	388,704	5,034	-	123,090	516,828	273,949
Refunds	-	-	-	14,914	14,914	19,980
Depreciation	621	7,877	-	24	8,522	8,360
Amortization	199	246	-	4	449	-
Utilities/Rent	1,075	3,089	-	59	4,223	3,714
Communications	1,438	7,599	-	76	9,113	7,681
Travel	339	254	-	13	606	580
Repair/Maintenance	536	3,550	-	10	4,096	3,730
Lottery Prize Payments	11,659	-	-	-	11,659	10,190
Interest Expense	54,865	593	-	-	55,458	52,840
Arbitrage Rebate Tax	75	-	-	-	75	202
Other Operating Expenses	1,308	500	4	94	1,906	2,202
Total Operating Expenses	514,281	60,927	4	139,412	714,624	462,994
Intrafund Expenses	(41)	(254)	-	-	(295)	(351)
Net Operating Expenses	514,240	60,673	4	139,412	714,329	462,643
Operating Income (Loss)	(226,105)	(5,211)	115,249	166,763	50,696	268,384
NONOPERATING REVENUES (EXPENSES):						
Gain (Loss) Sale of Fixed Assets	(1)	8	-	-	7	(126)
Increase (Decrease) in Value of Livestock	101	-	-	-	101	300
Federal Assistance	-	-	-	-	-	484
Federal Indirect Cost Recoveries	-	4,588	-	-	4,588	4,086
Total Nonoperating Revenues (Expenses)	100	4,596	-	-	4,696	4,744
Income (Loss) Before Operating Transfers	(226,005)	(615)	115,249	166,763	55,392	273,128
Operating Transfers In (Note 14)	12,967	1,015	25,038	-	39,020	74,675
Operating Transfers Out (Note 14)	(24,596)	-	(97,008)	-	(121,608)	(124,623)
Net Income (Loss)	(237,634)	400	43,279	166,763	(27,192)	223,180
RETAINED EARNINGS/FUND BALANCES - July 1						
As Previously Reported	(135,210)	52,794	821,987	1,688,891	2,428,462	2,219,501
Prior Period Adjustments (Note 3)	7,721	149	76	-	7,946	279
RETAINED EARNINGS/FUND BALANCES - July 1 -						
As Restated	(127,489)	52,943	822,063	1,688,891	2,436,408	2,219,780
Residual Equity Transfers (Note 14)	(11,206)	-	-	-	(11,206)	(14,498)
RETAINED EARNINGS/FUND BALANCES - JUNE 30	\$ (376,329)	\$ 53,343	\$ 865,342	\$ 1,855,654	\$ 2,398,010	\$ 2,428,462

The notes to the financial statements are an integral part of this statement.

STATE OF MONTANA
Combined Statement of Cash Flows
All Proprietary Fund Types and Nonexpendable Trust Funds
June 30, 1991
(Expressed in Thousands)

	PROPRIETARY FUND TYPES			TOTALS (MEMORANDUM ONLY) YEAR ENDED JUNE 30	
	ENTERPRISE	INTERNAL SERVICE	NONEXPENDABLE TRUST	1991	1990
CASH FLOWS FROM OPERATING ACTIVITIES:					
Receipts for Sales and Services	\$ 213,058	\$ 54,914	\$ 4,785	\$ 272,757	\$ 240,836
Collections for Principal					
And Interest on Loans	89,531	-	-	89,531	96,809
Cash Payments for Loans	(81,684)	-	-	(81,684)	(52,330)
Payments to Suppliers for					
Goods and Services	(39,096)	(31,576)	-	(70,672)	(69,191)
Payments to Employees	(12,196)	(15,881)	-	(28,077)	(24,144)
Payments for Servicer Fees	(1,661)	-	-	(1,661)	(1,600)
Grant Receipts	-	4,660	-	4,660	4,559
Cash Payments for Claims	(157,488)	(3,348)	-	(160,836)	(132,173)
Collections of Notes Receivable	771	-	-	771	1,605
Cash Payments for Prizes	(11,980)	-	-	(11,980)	(11,005)
Transfers from Other Funds	-	117	-	117	198
Donations Received	-	-	869	869	926
Scholarship/Fellowship Payments	-	-	(4)	(4)	(5)
Other Operating Revenues	178	144	32	354	125
Net Cash Provided by (Used for)					
Operating Activities	(567)	9,030	5,682	14,145	54,610
CASH FLOWS FROM NONCAPITAL					
FINANCING ACTIVITIES:					
Payment of Principal and					
Interest on Bonds and Notes	(129,705)	-	-	(129,705)	(102,861)
Proceeds from Issuance of Bonds and Notes	120,723	-	-	120,723	64,796
Payment of Bond Issuance Costs	(906)	-	-	(906)	(800)
Collection of Taxes	9,385	-	5,710	15,095	16,407
Transfers to Other Funds	(27,693)	-	(93,981)	(121,674)	(116,874)
Transfers from Other Funds	13,612	635	20,505	34,752	74,071
Cash Payments for Loans	(32,000)	-	-	(32,000)	-
Proceeds from Interfund Loans	-	187	-	187	231
Interfund Loan Payments	(8)	-	(223)	(231)	(125)
Residual Equity Transfers to Other Funds	(5,056)	-	-	(5,056)	-
Contributed Capital Transfers					
from Other Funds	5,056	-	-	5,056	181
Net Cash Provided by (Used for)					
Noncapital Financing Activities	(46,592)	822	(67,989)	(113,759)	(64,974)
CASH FLOWS FROM CAPITAL AND RELATED					
FINANCING ACTIVITIES:					
Acquisition of Fixed Assets	(1,713)	(8,728)	-	(10,441)	(8,808)
Proceeds from Sale of Fixed Assets	965	1,281	-	2,246	646
Transfers from Other Funds	-	78	-	78	235
Principal and Interest Payments					
on Bonds and Notes	(156)	(3,852)	-	(4,008)	(3,661)
Net Cash Used for Capital and					
Related Financing Activities	(904)	(11,221)	-	(12,125)	(11,588)
CASH FLOW FROM INVESTING ACTIVITIES:					
Purchase of Investments	(404,855)	(3,755)	(152,703)	(561,313)	(604,578)
Proceeds from Sales or					
Maturities of Investments	435,731	3,605	126,183	565,519	517,485
Interest and Dividends on Investments	26,242	658	80,973	107,873	87,817
Collections for Principal					
and Interest on Loans	-	-	7,704	7,704	14,662
Cash Payments for Loans	-	-	(6,972)	(6,972)	(19,046)
Collection of Rents/Leases/Royalties	-	-	20,147	20,147	20,427
Net Cash Provided by (Used for)					
Investing Activities	57,118	508	75,332	132,958	16,767
Net Increase (Decrease) in Cash					
and Cash Equivalents	9,055	(861)	13,025	21,219	(5,185)
Cash and Cash Equivalents, July 1	57,678	11,564	93,482	162,724	167,909
Cash and Cash Equivalents, June 30	\$ 66,733	\$ 10,703	\$ 106,507	\$ 183,943	\$ 162,724

The notes to the financial statements are an integral part of this statement.

	PROPRIETARY FUND TYPES			TOTALS (MEMORANDUM ONLY) YEAR ENDED JUNE 30	
	ENTERPRISE	INTERNAL SERVICE	NONEXPENDABLE TRUST	1991	1990
	-----	-----	-----	-----	-----
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:					
Operating Income (Loss)	\$ (226,105)	\$ (5,211)	\$ 115,249	\$ (116,067)	\$ 103,510
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:					
Depreciation	621	7,877	-	8,498	8,333
Amortization	5,575	246	-	5,821	5,539
Taxes	(9,385)	-	(5,715)	(15,100)	(16,407)
Interest on Bonds and Notes	44,938	-	-	44,938	43,938
Interest on Investments	(25,882)	(670)	(83,694)	(110,246)	(107,449)
Federal Indirect Cost Recoveries	-	4,588	-	4,588	4,540
Gain on Sale of Fixed Assets	-	-	-	-	(14)
Interest Expense	4,626	592	-	5,218	4,036
Operating Transfers in	-	341	-	341	198
Rentals/Leases/Royalties	-	-	(20,141)	(20,141)	(20,443)
Change in Assets and Liabilities:					
Decr (Incr) in Accounts Receivable	(1,229)	(82)	-	(1,311)	8
Decr (Incr) in Due From Other Governments	-	7	-	7	(12)
Decr (Incr) in Due From Other Funds	10,739	(435)	(16)	10,288	(10,651)
Decr (Incr) in Inventories	4,941	(283)	-	4,658	(1,900)
Decr (Incr) in Long-term Loans/Notes Receivable	(33,909)	-	-	(33,909)	2,781
Decr (Incr) in Other Assets	(819)	49	-	(770)	(316)
Incr (Decr) in Accounts Payable	391	197	-	588	(349)
Incr (Decr) in Lottery Prizes Payable	(202)	-	-	(202)	(860)
Incr (Decr) in Due to Other Funds	(6,351)	(189)	(4)	(6,544)	7,184
Incr (Decr) in Deferred Revenue	(1,137)	120	3	(1,014)	910
Incr (Decr) Property Held in Trust	732	42	-	774	1,189
Incr (Decr) in Compensated Absences Payable	84	119	-	203	101
Incr (Decr) in Estimated Claims	231,805	1,722	-	233,527	30,744
Net Cash Provided by (Used For)					
Operating Activities	\$ (567)	\$ 9,030	\$ 5,682	\$ 14,145	\$ 54,610
	=====	=====	=====	=====	=====
SCHEDULE OF NONCASH TRANSACTIONS:					
Fixed Asset Acquisitions from Capital Leases	\$ 3	\$ 2,075	\$ -	\$ 2,078	\$ 260
Asset Acquisitions from Contributed Capital Transfers from Other Funds	13	160	-	173	1,325
Total Noncash Transactions	\$ 16	\$ 2,235	\$ -	\$ 2,251	\$ 1,585
	=====	=====	=====	=====	=====

STATE OF MONTANA
Statement of Revenues, Expenditures, Transfers and Changes in Fund Balance
All Higher Education Funds
For the Fiscal Year Ended June 30, 1991
(Expressed in Thousands)

	CURRENT FUNDS			
	UNRESTRICTED			
	GENERAL	DESIGNATED	AUXILIARY	RESTRICTED
	OPERATING			
REVENUES/OTHER ADDITIONS:				
Tuition/Fees	\$ 35,635	\$ 4,747	\$ 5,783	\$ 3
State Appropriations	-	-	-	-
Federal Grants/Contracts	4,883	41	-	39,639
State Grants/Contracts	-	265	-	4,182
Local Grants/Contracts	2	-	-	435
Private Gifts/Grants/Donations	-	240	1	11,682
Endowment Income	-	-	-	7
Sales/Services-Educational Activities	965	1,153	1	89
Sales/Services-Designated/Auxiliary Enterprises	6	11,325	35,175	80
Indirect Costs Recovered	126	1,030	-	-
Investment Earnings	50	83	645	289
Acquisition of Long-Lived Assets	-	-	-	-
Retirement of Indebtedness	-	-	-	-
Other Revenues/Additions	246	3,569	319	428
Total Revenues/Other Additions	41,913	22,453	41,924	56,834
Intrafund Revenues/Other Additions	-	-	-	(57)
Net Revenues/Other Additions	41,913	22,453	41,924	56,777
EXPENDITURES/OTHER DEDUCTIONS:				
Instruction	73,148	2,872	12	3,332
Research	10,014	652	-	16,310
Public Service	4,524	903	-	5,111
Academic Support	13,281	3,375	-	1,451
Student Services	13,957	3,765	1	1,933
Institutional Support	15,293	5,168	-	232
Independent Operations	1,279	-	-	-
Scholarships/Fellowships	3,379	4	-	22,666
Auxiliary Enterprises	-	-	35,909	5
Operation/Maintenance of Plant	18,855	1,812	-	310
Expended for Plant	-	-	-	-
Debt Services	219	126	58	19
Capital Outlay	4,171	1,811	134	2,904
Disposal of Long-Lived Assets	-	-	-	-
Debt Incurred	-	-	-	-
Other Expenditures/Deductions	1,067	340	1	19
Total Expenditures/Other Deductions	159,187	20,828	36,115	54,292
Intrafund Expenditures/Other Deductions	-	-	-	(57)
Net Expenditures/Other Deductions	159,187	20,828	36,115	54,235
TRANSFERS IN (OUT)/OTHER ADDITIONS (DEDUCTIONS):				
Transfers from State General Fund	101,454	-	-	-
Millage Transfers	13,499	-	-	-
Mandatory Transfers	1,035	(346)	(5,941)	24
Nonmandatory Transfers	324	(288)	67	159
Total Transfers In (Out) (Note 14)	116,312	(634)	(5,874)	183
Move Equity to Investment in Plant	-	-	-	-
Loan Proceeds	-	-	-	-
Total Transfers In (Out)/Other Additions (Deductions)	116,312	(634)	(5,874)	183
Net Increase (Decrease) in Fund Balances	(962)	991	(65)	2,725
FUND BALANCES - July 1 - As Previously Reported	(10,832)	5,677	7,249	1,813
Prior Period Adjustments (Note 3)	1	8	-	4
FUND BALANCES - July 1 - As Restated	(10,831)	5,685	7,249	1,817
Residual Equity Transfers (Note 14)	-	5	(5)	-
FUND BALANCES - June 30	\$ (11,793)	\$ 6,681	\$ 7,179	\$ 4,542

The notes to the financial statements are an integral part of this statement.

FIDUCIARY FUNDS

PLANT FUNDS

						TOTALS	
						YEAR ENDED JUNE 30	
STUDENT LOANS	ENDOWMENTS	UNEXPENDED	RENEWAL AND REPLACEMENT	RETIREMENT OF INDEBTEDNESS	INVESTMENT IN PLANT	1991	1990
\$ -	\$ -	\$ 1,241	\$ 234	\$ 1,850	\$ -	\$ 49,493	\$ 46,254
-	-	-	-	-	-	-	121
574	-	-	-	23	-	45,160	41,595
41	-	-	-	-	-	4,488	4,617
-	-	-	-	-	-	437	44
13	1	175	-	-	-	12,112	10,172
-	-	-	-	-	-	7	7
-	-	-	-	-	-	2,208	1,944
-	-	2	15	-	-	46,603	43,201
-	-	-	-	-	-	1,156	1,900
334	3	221	355	1,475	-	3,455	3,684
-	-	-	-	-	29,786	29,786	32,912
-	-	-	-	-	5,134	5,134	3,235
275	-	813	332	779	-	6,761	6,482
1,237	4	2,452	936	4,127	34,920	206,800	196,168
-	-	(20)	-	-	-	(77)	(263)
1,237	4	2,432	936	4,127	34,920	206,723	195,905
-	-	1	-	-	-	79,365	77,064
-	-	-	-	-	-	26,976	25,051
-	-	-	-	-	-	10,538	9,999
-	-	-	-	-	-	18,107	17,095
128	-	-	-	-	-	19,784	17,800
-	-	-	-	-	-	20,693	20,199
-	-	-	-	-	-	1,279	1,244
-	-	-	-	-	-	26,049	23,240
-	-	-	-	-	-	35,914	33,176
-	-	-	-	-	-	20,977	19,764
-	-	1,194	1,816	11	-	3,021	2,372
-	-	47	98	10,793	-	11,360	9,201
-	-	1,542	1,228	-	-	11,790	11,016
-	-	-	-	-	14,192	14,192	29,504
-	-	-	-	-	6,977	6,977	2,077
174	-	-	-	-	-	1,601	1,156
302	-	2,784	3,142	10,804	21,169	308,623	299,958
-	-	(20)	-	-	-	(77)	(263)
302	-	2,764	3,142	10,804	21,169	308,546	299,695
-	-	-	-	-	-	101,454	94,362
-	-	-	-	-	-	13,499	12,837
4	-	214	118	7,644	-	2,752	1,780
(6)	77	771	1,527	(1,977)	-	654	1,085
(2)	77	985	1,645	5,667	-	118,359	110,064
-	-	(447)	(575)	-	-	(1,022)	(104)
-	-	250	-	-	-	250	-
(2)	77	788	1,070	5,667	-	117,587	109,960
933	81	456	(1,136)	(1,010)	13,751	15,764	6,170
20,079	2,041	3,911	6,436	17,963	339,464	393,801	387,683
-	(104)	-	-	-	-	(91)	(52)
20,079	1,937	3,911	6,436	17,963	339,464	393,710	387,631
\$ 21,012	\$ 2,018	\$ 4,367	\$ 5,300	\$ 16,953	\$ 353,215	\$ 409,474	\$ 393,801

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STATE OF MONTANA

NOTES TO THE FINANCIAL STATEMENTS

June 30, 1991

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity - For financial reporting purposes, the State of Montana has considered all potential component units and has included all funds and account groups, agencies, boards, commissions, authorities, colleges, universities, and vocational-technical centers over which the States' executive, legislative and judicial branches exercise oversight responsibility. Oversight responsibility was determined on the basis of the following criteria as defined in Section 2100 of the Governmental Accounting Standards Board Codification of Governmental Accounting and Financial Reporting Standards: financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters. Other criteria used to evaluate potential component units include scope of public service and existence of special financing relationships. Based on this criteria, the following organizations are included in the accompanying financial statements:

Higher Education Units

State-owned Universities/Colleges/
Vocational-Technical Centers

Financing Authorities

Montana Board of Housing
Montana Health Facility Authority
Beginning Farm Loan Program

Though the following organizations perform functions related to the higher education units, they are not considered part of Montana's reporting entity because they do not fall within the oversight responsibility of the State's elected officials: (1) Community Colleges which are considered part of local units of government; and both (2) the Montana Higher Education Student Assistance Corporation, a private non-profit corporation, and (3) private foundations supporting public education, over which the State exercises neither financial nor administrative control.

B. Basis of Presentation - The accompanying financial statements for the State of Montana have been prepared in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The financial statements of the higher education funds have been prepared in conformity with GAAP for colleges and universities (except for General Fund appropriations, which are reported as "Transfers from State General Fund") as prescribed by the National Association of College and University Business Officers (NACUBO) and the American Institute of Certified Public Accountants.

Significant intrafund transactions and balances have been eliminated.

The total columns on the Combined Financial Statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Information in these columns does not present financial position, results of operations or changes in cash flows in conformity with generally accepted accounting principles. The total columns also do not present consolidated financial information as interfund eliminations have not been made in the aggregation of this data.

C. Fund Structure - The State uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

The financial activities of the State of Montana are classified into four fund categories and two account groups, as described below:

GOVERNMENTAL FUNDS

General Fund - To account for all governmental financial resources except those required to be accounted for in another fund.

Special Revenue Funds - To account for the proceeds of specific revenue sources restricted to expenditure for specified purposes (other than expendable trusts or major capital projects).

Debt Service Funds - To account for resources accumulated for payment of principal and interest on long-term general obligation debt.

Capital Projects Funds - To account for resources used for the acquisition or construction of major capital facilities (other than those financed by proprietary or trust funds).

PROPRIETARY FUNDS

Enterprise Funds - To account for operations (1) financed and operated similar to private business enterprises, where the intent of the legislature is to finance or recover costs primarily through user charges; or (2) where the legislature has decided periodic determination of revenue earned, expenses incurred, or net income is appropriate.

Internal Service Funds - To account for the financing of goods and services provided by one department or agency to other departments, agencies or other governmental entities on a cost-reimbursement basis.

FIDUCIARY FUNDS

Trust and Agency Funds - To account for assets held by the State in a trustee capacity or as an agent for individuals, private organizations, other governments or other funds. These include: (1) Expendable Trust Funds; (2) Nonexpendable Trust Funds; (3) Pension Trust Funds; and (4) Agency Funds.

ACCOUNT GROUPS

General Fixed Assets Account Group - To account for all fixed assets of the State, except those accounted for in the Proprietary, Nonexpendable Trust, Pension Trust and Plant Funds.

General Long-Term Obligations Account Group - To account for all long-term obligations of the State, except those accounted for in Proprietary, Nonexpendable Trust, Pension Trust and Plant Funds.

HIGHER EDUCATION (UNIVERSITY AND VOCATIONAL-TECHNICAL CENTER) FUNDS

Current Funds

Unrestricted

General Operating - To account for the portion of financial resources that can be expended for general operations and is free of externally imposed restrictions, except those imposed by the legislature.

Designated - To account for those resources associated with general operations which are separately classified in order to accumulate costs recharged to other funds and to identify special activities of educational departments which are supported by supplemental assessments and the receipt and disposition of special supply and facility fees which are approved for collection beyond normal course fees.

Auxiliary - To account for those financial resources devoted to providing essential on-campus services primarily to students, faculty or staff where a fee relating to the service is charged.

Restricted - To account for the portion of financial resources that can be expended only for purposes imposed by sources external to the Board of Regents and the legislature.

Fiduciary Funds

Student Loans - To account for moneys which may be loaned to students, faculty or staff for purposes related to education, organized research or public services by the higher education units.

Endowments - To account for moneys where the principal is available for investment. Investment earnings are to be transferred to (or recorded directly in) appropriate operating funds pursuant to prevailing administrative requirements.

Agency - To account for moneys where the State acts in the capacity of a custodian or fiscal agent for individual students, faculty, staff or qualified organizations.

Plant Funds

Unexpended - To account for unexpended resources derived from various sources which are used to finance the acquisition/construction of plant assets and the associated liabilities.

Renewal and Replacement - To account for resources used to provide for the renewal and replacement of plant fund assets as distinguished from additions and improvements.

Retirement of Indebtedness - To account for resources accumulated for interest and principal payments and other debt service charges, including contributions to reserves, relating to plant fund indebtedness.

Investment in Plant - To account for all long-lived assets in the service of the higher education unit as well as all associated liabilities.

D. Basis of Accounting - The accounting and reporting treatment applied to a fund is determined by its measurement focus. All Governmental Funds and Expendable Trust Funds are accounted for on a spending or "financial flow" measurement focus. This means only current assets and current liabilities are generally included on their balance sheets. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting is followed in the Governmental Funds, Expendable Trust Funds and Agency Funds. Under the modified accrual basis, revenues are susceptible to accrual and recognized when they are measurable and available to pay current period liabilities. Intergovernmental revenues received as reimbursements are recognized based upon the expenditures incurred. Intergovernmental revenues received but not earned are recorded as deferred revenues. Taxes on coal sales, gas and oil production, individual income and other self-assessed taxes are recognized as revenues, if available, when tax returns are filed. Based on historical analysis, a liability has been recognized for collected withholding taxes to be refunded in fiscal year 1992. Expenditures are recognized when the related fund liability is incurred, with the following exceptions:

- (1) principal and interest on long-term debt is recognized when due;
- (2) prepayments are accounted for as expenditures in the period of acquisition; and
- (3) inventory items are considered expenditures when purchased.

All Proprietary, Pension Trust and Nonexpendable Trust Funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means all assets and liabilities associated with these activities are included on their balance sheets. Operating statements for these funds present increases (revenues) and decreases (expenses) in net total assets.

Proprietary, Pension Trust, Nonexpendable Trust and Higher Education Funds are maintained and report on the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and become measurable; expenses are recognized in the period incurred, if measurable. In Higher Education Funds, depreciation expense related to plant fund assets is not recorded; also, student tuition and fees are fully recognized in the fiscal year in which the related courses or activities are principally conducted. Proprietary and Higher Education Funds' unbilled receivables are recognized as revenue.

E. Cash/Cash Equivalents - For all funds, except the Board of Housing in the Enterprise Fund type, cash and cash equivalents consist of cash deposits, cash invested in STIP and short-term, highly liquid investments with original maturities of three months or less. The Board of Housing considers cash and cash equivalents to be cash held by the state treasurer, other cash deposits, and mortgage payments in transit.

F. Receivables - This classification, net of estimated uncollectibles, consists primarily of receivables for goods sold and services provided; short-term loans and notes; interest and dividends; and income, withholding and inheritance taxes that are past due. An allowance for uncollectible taxes is provided based upon historical analysis. The allowance for uncollectible taxes at June 30, 1991, is \$21.9 million.

G. Inventories - Inventories of materials and supplies are stated at cost. The State allows agencies to use any generally accepted inventory pricing method, but specifies the first-in, first-out method should be appropriate for most agencies.

Governmental and Expendable Trust Funds use the "purchase method," meaning inventory purchases are recorded as expenditures. At fiscal year-end significant amounts of inventory are shown as a reserve of fund balance, indicating they do not constitute "available spendable resources."

Proprietary, Pension Trust, Nonexpendable Trust and Higher Education Funds report using the "consumption method," meaning inventories are expensed as used.

H. Deferred (Gains) Losses - This classification is used in the Pension Trust Funds to reflect use of the deferral and amortization method of accounting for gains and losses on the exchange of securities.

I. Deferred Charges - Unamortized bond issuance costs are reported in this category.

J. Deferred Revenue - Deferred revenues are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met.

K. Fund Balance/Retained Earnings Reserves - Portions of fund equity are reported as "reserved" to indicate (1) amounts not available for expenditure, such as equity represented by inventories; and (2) amounts legally segregated for a specific future use, such as those pledged for debt service and retirement benefits or legally-binding contractual agreements.

L. Other Taxes - On the Combined Statement of Revenues, Expenditures and Changes in Fund Balances for All Governmental Fund Types and Expendable Trust Funds, the revenue category "Other Taxes" consists of the following taxes (in thousands):

	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund
Property	\$ 8	\$154,458	\$ -	\$ -
Fuel	-	110,246	-	-
Vo-Tech/University	-	-	-	-
Millage	-	13,367	-	-
Cigarette/Tobacco	-	-	9,313	3,427
Inheritance/Estate	9,340	-	-	-
Alcoholic Beverage	2,081	2,338	-	-
Miscellaneous	41,403	48,417	-	-
TOTAL OTHER TAXES	\$52,832	\$328,826	\$9,313	\$3,427

M. Property Taxes - Real property taxes are levied in October and are payable in two installments on November 30 and May 31. These taxes attach as an enforceable lien immediately if not paid when due. The State recognizes property tax revenues as available if they are collected within 60 days after fiscal year-end. Material delinquent and total uncollected current year property taxes receivable are recorded in Receivables (Net).

Personal property tax levies are set each August and notices are normally mailed the following March or April. Half of mobile home taxes are due in 30 days and the remaining half on September 30. Taxes on all other types of personal property are to be paid in full 30 days after receipt of the notice. Personal property taxes attach as an enforceable lien immediately if not paid when due.

Property taxes are collected by each of Montana's 56 counties. The counties then remit the State's portion to the State Treasury. The majority of these taxes help fund public school systems and higher education.

N. Compensated Absences - Generally, state employees earn vacation leave ranging from 15-24 days per year depending on the individual's years of service. Teachers employed by the State do not receive vacation leave. Vacation leave may be accumulated and carried over from one year to the next. The carryover is limited to two times the maximum number of days earned annually. Sick leave is earned at the rate of 12 days per year with no limit on accumulation. Each contribution year, an employee may contribute a maximum of 40 hours of sick leave to a nonrefundable sick leave pool. For fiscal year 1991, 440 hours were contributed to the sick leave pool and 344 hours were withdrawn leaving a balance of 4,557 hours in the pool. No liability is reported in the accompanying financial statements because these hours are nonrefundable to participants except by grants approved through an application process. Upon retirement or termination, an employee is paid for 100% of unused vacation leave and 25% of unused sick leave. As of June 30, 1991, the State's liability for unused vacation and sick leave for Higher Education Funds was \$16.9 million. The remaining agencies' leave liabilities at June 30, 1991, were \$31.9 million, an increase of \$1.8 million over the June 30, 1990, leave liability of \$30.1 million. The following table reflects the change (in millions):

	Balance July 1, 1990	Leave Earned	Leave Used	Balance June 30, 1991
Governmental Fund Types and Similar Trust Funds	\$ 27.5	\$ 16.3	\$ 14.8	\$ 29.0
Proprietary Fund Types and Similar Trust Funds	2.6	1.9	1.6	2.9
Total Non-Higher Education Funds	\$ 30.1	\$ 18.2	\$ 16.4	\$ 31.9

2. BUDGETARY REPORTING

A. State Budget Process - Montana is a biennial budget state. The constitution requires that legislative appropriations not exceed available revenues. Revenue estimates are adopted by the legislature for budgetary purposes but do not represent a legal restriction on actual revenues. Expenditures may not legally exceed budgeted appropriations. In addition, the State Constitution prohibits borrowing to cover deficits incurred because appropriations exceeded anticipated revenues. State law requires an appropriation for disbursements from the General, Special Revenue, Capital Projects, Enterprise and Internal Service Funds. Budgets may be established in other funds for administrative purposes.

Agency budget requests are submitted to the Governor and the legislative fiscal analyst. The Governor and budget director establish priorities and balance the budget. The Governor's budget is submitted to the legislative fiscal analyst who then prepares recommendations. A comparison of those recommendations with the Governor's budget is submitted to the legislature. Joint appropriations subcommittee hearings are held and an omnibus appropriation bill is reported in the House and subsequently sent to the Senate. The legislature generally enacts one bill making all appropriations for the next two fiscal years. Other appropriations are enacted by the legislature, but only within the available revenue. Agencies must prepare and submit to the budget director operational plans showing the allocation of operating budgets by expenditure category (i.e., personal services, contractual services, equipment, etc.). The budget

director or other statutorily designated approving authority may authorize changes among expenditure categories and transfers between program appropriations.

Appropriations may not be increased by amendment in the General Fund. However, a department, institution or agency of the executive branch desiring authorization to make expenditures from the General Fund during the first fiscal year of the biennium from appropriations for the second fiscal year of the biennium may apply for authorization from the Governor through the budget director. Additionally, the Governor, or his designee, may approve budget amendments for non-General Fund monies not available for consideration by the legislature and for emergencies. In the accompanying financial statements, reported budget amounts are as amended, if applicable. There were no expenditures in excess of total authorized appropriations in the State's budgeted funds for the fiscal year.

Appropriations may be continued into the next fiscal year when authorized by the legislature or the Governor's Office. After fiscal year-end, appropriations that are not continued are reverted. The reverted appropriations remain available for one fiscal year for expenditures that exceed the amount accrued/encumbered. Fund balances/retained earnings are not reserved for reverted appropriations. For fiscal year 1991, reverted appropriations for all funds were \$191 million.

Because Capital Projects Funds' appropriations are not made on an annual basis, Capital Projects Funds' activities are not presented in the Combined Statement of Revenues, Expenditures, Other Financing Sources (Uses) and Reconciliation of Budget and Actual (Budgetary Basis) to GAAP Basis.

B. Encumbrances - Encumbrance accounting, under which purchase orders, contracts and other commitments are recorded as expenditures and liabilities in order to reserve that portion of the applicable appropriation, is employed for budget control purposes. Encumbrances outstanding at fiscal year-end are reported as reservations of fund balances for subsequent year expenditures.

C. Budget Basis - The legislature's legal authorization ("appropriations") to incur obligations is enacted on a basis inconsistent with GAAP. The budget basis differs from GAAP for encumbrances outstanding at fiscal year-end; compensated absences, fixed assets and inventories purchased in Proprietary Funds; compensated absences and inventories purchased in Higher Education Funds; certain loans from Governmental Funds; deferred gains (losses) on bond swaps; and other miscellaneous nonbudgeted activity (e.g., bad-debt write-offs, etc.). The General and Special Revenue Fund Type budgetary statement includes a reconciliation between "Excess of revenues/other sources over (under) expenditures/other uses" on the budgetary basis and the GAAP basis.

3. ACCOUNTING AND REPORTING CHANGES

The State changed its accounting and reporting practices to enhance conformance with GAAP. The changes reported in the accompanying financial statements which resulted in the reclassification of funds and the restatement of beginning fund equity are as follows:

Enterprise/Expendable Trust Funds

The Hail Insurance Fund, Subsequent Injury Fund and Uninsured Employers' Fund are public entity risk pools which were reclassified from the Expendable Trust Fund to the Enterprise Fund to comply with Section C50 of Governmental Accounting and Financial Reporting Standards.

Enterprise/Internal Service Funds

The Local Government Audit Fund and the Local Government Accounting and Management System Fund were reclassified from the Internal Service Fund to the Enterprise Fund as required by statute and to more properly reflect the nature of the activity of these funds.

Prior Period Adjustments - For the fiscal year ended June 30, 1991, the following adjustments have resulted in beginning fund equity restatements (in thousands):

Fund Type	Increase (Decrease)		Totals
	A	B	
General	\$ 948	\$ -	\$ 948
Special Revenue	(2,157)	-	(2,157)
Debt Service	17	-	17
Enterprise	(2,591)	10,312	7,721
Internal Service	310	(161)	149
Expendable Trusts	(436)	(10,151)	(10,587)
Nonexpendable Trust	76	-	76
Higher Education:			
General Operating	1	-	1
Designated	8	-	8
Restricted	4	-	4
Endowments	(104)	-	(104)
Totals	<u>\$ (3,924)</u>	<u>\$ -</u>	<u>\$ (3,924)</u>

A. Restatements for corrections of errors.

B. Restatements for reclassifications.

In addition to the restatements reflected above, the State changed its accounting policy to include as cash equivalents cash invested in the Short-Term Investment Pool (STIP) and investments with original maturities of three months or less. Amounts were reclassified in the fiscal year 1990 memorandum totals to reflect the change to comply with GASB Statement No. 9. These changes do not affect fund balance as previously reported.

4. CASH/CASH EQUIVALENTS AND INVESTMENTS

This footnote details the following balance sheet classifications (in thousands):

Cash/Cash Equivalents	\$ 1,164,120
Equity in Pooled Investments	\$ 315,233
Investments	\$ 2,396,379

Carrying amounts and market values (Bank Balance for Cash Deposits) for the State's cash/cash equivalents and investments are presented in Tables 1 through 7. The State's cash equivalents and investments are categorized in Table 2 - Short-Term Investment Pool (STIP), Table 4 - Cash Equivalents, Table 5 - Equity in Pooled Investments and Table 7 - Investments to disclose the level of risk assumed by the State at fiscal year-end. **Category 1** includes investments that are insured, registered or uninsured, unregistered securities held by the State or its agent in the State's name. **Category 2** includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the State's name. **Category 3** includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent, but not in the State's name. None of the State's cash equivalents or investments were classified in Category 3 at fiscal year-end.

Under a security lending agreement with the State's agent, all of the State's investments may be loaned. The agreement requires the collateralization of loaned securities with securities at 102% of their face value.

A. Cash/Cash Equivalents

(1) **Cash Deposits** - The State's main depository bank balance fluctuates daily. The State requires collateralization based on an average daily bank balance. For other depository banks, State statutes require collateralization at 50% of the bank balance. All securities pledged for collateral are held by the State or by the State's agent or its pledging institution in the State's name (see risk category 1 and 2, Table 1).

TABLE 1 - CASH DEPOSITS (In Thousands)

<u>Risk Category</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>	<u>Fund</u>
Insured (FDIC)	\$ 3,772	\$ 3,772	Various
Uninsured:			
(1) Collateral held by State/State's agent	316,460	23,510	Various
(2) Collateral held by pledging institution	85,081	85,081	Various
(3) Uncollateralized	18,924	13,807	Various
	<u>424,237</u>	<u>\$126,170</u>	
Outstanding Warrants	<u>(65,774)</u>		
TOTAL CASH DEPOSITS	<u>\$378,463</u>		

(2) **Short-Term Investment Pool (STIP)** - STIP consists of cash in the State Treasury not invested by individual funds in identifiable securities. Cash is pooled and invested in short-term instruments. Each investing fund, including local governments outside this reporting entity, purchase units in STIP. STIP is under the control of the Board of Investments. Montana Certificates of Deposit are fully insured and collateralized.

TABLE 2 - SHORT TERM INVESTMENT POOL (STIP) (In Thousands)

	<u>Categories</u>		<u>Carrying Amount</u>	<u>Market Value</u>	<u>Fund</u>
	<u>1</u>	<u>2</u>			
Government Securities	\$ 58,597	\$ -	\$ 58,597	\$ 58,662	Various
Bankers' Acceptances	371,953	-	371,953	371,972	Various
Commercial Paper	178,920	-	178,920	178,911	Various
Repurchase Agreements	69,760	-	69,760	69,760	Various
Corporate Obligations	90,371	-	90,371	90,628	Various
MT Certificates of Deposit	1,000	-	1,000	1,000	Various
	<u>\$770,601</u>	<u>\$ -</u>	<u>770,601</u>	<u>770,933</u>	
Securities on Loan:					
Government Securities			9,724	9,750	
TOTAL STIP			<u>\$780,325</u>	<u>\$780,683</u>	

As of June 30, 1991, total STIP included securities owned by local governments with both a carrying value and a market value of \$229,136,000.

(3) **Cash Equivalents** - Cash equivalents are short-term, highly liquid investments with original maturities of three months or less. Cash equivalents may be under the control of the Board of Investments (the Board) or other agencies as allowed by law.

TABLE 3 - CASH EQUIVALENTS (In Thousands)

<u>Fund Type</u>	<u>Carrying Amount</u>	<u>Market Value</u>	<u>Govt. Secur.</u>	<u>Money Market</u>
Enterprise				
Carrying Amount	\$2,702		\$2,702	\$ -
Market Value		\$2,702	2,702	-
Internal Service				
Carrying Amount	1,522		-	1,522
Market Value		1,522	-	1,522
Higher Education				
Carrying Amount	1,108		746	362
Market Value		1,108	746	362
Total Cash Equivalents:				
Carrying Amount	<u>\$5,332</u>		<u>\$3,448</u>	<u>\$1,884</u>
Market Value		<u>\$5,332</u>	<u>\$3,448</u>	<u>\$1,884</u>

TABLE 4 - CASH EQUIVALENTS (RISK CATEGORIES) (In Thousands)

<u>Security Type</u>	<u>Categories</u>		<u>Carrying Amount</u>	<u>Market Value</u>
	<u>1</u>	<u>2</u>		
Government Securities	\$ 3,448	\$ -	\$ 3,448	\$ 3,448
Money Markets	<u>362</u>	<u>1,522</u>	<u>1,884</u>	<u>1,884</u>
TOTAL	<u>\$ 3,810</u>	<u>\$ 1,522</u>	<u>\$ 5,332</u>	<u>\$ 5,332</u>

B. Equity in Pooled Investments - Consists of cash pooled and invested in common stock of publicly held companies. Known as MONTCOMP (Montana Common Stock Pool), participation is restricted to expendable, nonexpendable and pension trust funds and higher education endowment funds. MONTCOMP purchases are subject to statutory restrictions for quality and size of holdings.

TABLE 5 - EQUITY IN POOLED INVESTMENTS (In Thousands)

<u>MONTCOMP</u>	<u>Categories</u>		<u>Carrying Amount</u>	<u>Market Value</u>	
	<u>1</u>	<u>2</u>			
Corporate Stocks	<u>\$309,288</u>	<u>\$ -</u>	\$309,288	\$439,394	Various
Securities on Loan:					
Corporate Stocks			<u>5,945</u>	<u>5,323</u>	
TOTAL MONTCOMP			<u>\$315,233</u>	<u>\$444,717</u>	

C. Investments - Investments are primarily administered by three State agencies. Article 8 of Montana's Constitution, with supporting statutes, provides the Board of Investments with the authority to manage the State's uniform investment program. State law specifies which agencies may hold investments outside the administration of the Board. The Board, as the State's primary administrator of long-term investments, actively manages 89% of those investments; the Board of Housing, 7%; the Department of Administration's Personnel Division, 3% for the State's Deferred Compensation Plan; and various other agencies, the remaining 1%.

The Board must employ the "Prudent Expert Rule" in managing the State's investment portfolio. The funds carry equity securities at cost and debt securities at amortized cost. Deferred compensation plan investments are carried at market.

The Board of Investments continued to invest in leveraged buyouts and venture capital in fiscal year 1991. On December 7, 1990, the Board committed an additional \$25,000,000 for leveraged buyout investments administered by Kohlberg, Kravis, Roberts and Companies. The Board's total leveraged buyout commitment amounts to \$50,300,000. The leveraged buyout invested balance for the pension funds amounted to \$21,979,679 on June 30, 1991.

For the purpose of portfolio diversification, the Board has committed \$18,000,000 of assets from the Teachers' Retirement System and the Public Employees Retirement System for venture capital investments administered by Brinson Partners. At June 30, 1991, the venture capital invested balance for these two systems totaled \$6,826,944. These balances are reflected in the Other column below.

TABLE 6 - INVESTMENTS (CARRYING AMOUNT/MARKET VALUE) (In Thousands)

Fund Type	Carrying Amount	Market Value	Corporate Bonds	Government Securities	Mortgages	Bond Anticipation		Other
						Notes		
Special Revenue								
Carrying Amount	\$ 3,901		\$ 1,400	\$ 2,501	\$ -	\$ -	\$ -	
Market Value		\$ 3,971	1,429	2,542	-	-	-	
Debt Service								
Carrying Amount	4,945		-	4,945	-	-	-	
Market Value		5,041	-	5,041	-	-	-	
Enterprise								
Carrying Amount	204,004		12,705	155,861	88	-	35,350	
Market Value		213,395	12,461	164,252	88	-	36,594	
Internal Service								
Carrying Amount	4,671		1,948	2,723	-	-	-	
Market Value		4,765	1,994	2,771	-	-	-	
Nonexpendable Trust								
Carrying Amount	695,651		554,692	131,270	8,131	1,558	-	
Market Value		707,969	563,374	134,906	8,131	1,558	-	
Pension Trusts								
Carrying Amount	1,399,569		1,081,879	164,498	119,402	-	33,790	
Market Value		1,410,318	1,084,667	168,606	119,402	-	37,643	
Higher Education								
Carrying Amount	13,252		-	13,167	-	-	85	
Market Value		13,314	-	13,258	-	-	56	
Totals Identifiable Investments:								
Carrying Amount	2,325,993		<u>\$1,652,624</u>	<u>\$474,965</u>	<u>\$127,621</u>	<u>\$ 1,558</u>	<u>\$69,225</u>	
Market Value		2,358,773	<u>\$1,663,925</u>	<u>\$491,376</u>	<u>\$127,621</u>	<u>\$ 1,558</u>	<u>\$74,293</u>	
Deferred Compensation	70,386	70,386						
TOTAL INVESTMENTS	<u>\$2,396,379</u>	<u>\$2,429,159</u>						

TABLE 7 - INVESTMENTS (RISK CATEGORIES) (In Thousands)

Security Type	Categories		Carrying Amount	Market Value
	1	2		
Corporate Bonds	\$1,646,107	\$ -	\$1,646,107	\$1,657,718
Government Securities	148,257	142,364	290,621	303,087
Mortgages	127,621	-	127,621	127,621
Bond Anticipation Notes	1,558	-	1,558	1,558
Other	33,875	35,350	69,225	74,293
Subtotals	<u>\$1,957,418</u>	<u>\$177,714</u>	<u>\$2,135,132</u>	<u>\$2,164,277</u>
Pooled Def. Comp.	70,386	-	70,386	70,386
	<u>\$2,027,804</u>	<u>\$177,714</u>	2,205,518	2,234,663
Securities on Loan:				
Government Securities			184,344	188,289
Corporate Bonds			6,517	6,207
TOTAL			<u>\$2,396,379</u>	<u>\$2,429,159</u>

5. FIXED ASSETS

Fixed asset valuation is based on actual or estimated historical cost or, in the case of donations, fair market value on the date donated. Infrastructure fixed assets are generally not capitalized. Interest incurred during construction is not capitalized for general fixed assets or higher education units' fixed assets.

Fixed assets are not depreciated in the General Fixed Assets Account Group or the Expendable Trust Funds. When purchased, such assets are recorded as expenditures in the governmental fund types and Expendable Trust Funds. Fixed assets in Proprietary, Nonexpendable Trust and Pension Trust Funds are accounted for within their respective funds. They are depreciated on a straight-line basis with estimated useful lives of 30-50 years for buildings, 20 years for improvements and 4-12 years for equipment.

Fixed assets and intangible assets for Higher Education Units are accounted for in the Investment in Plant Fund and are not depreciated.

Intrafund transfers of fixed assets have not been eliminated in the table below or in the accompanying financial statements.

Changes in fixed asset balances (long-lived asset balances for Higher Education Funds) for the fiscal year ended June 30, 1991, are reflected in the following table (in thousands):

	Balance July 1, 1990	Additions/ Transfers	Deletions/ Transfers	Balance June 30, 1991
PROPRIETARY FUNDS				
Land	\$ 926	\$ -	\$ -	\$ 926
Buildings/Improvements	3,647	152	-	3,799
Equipment	97,101	12,004	5,194	103,911
Other Fixed Assets	15	-	7	8
Construction in Progress	1,957	3,452	2,877	2,532
Subtotal/Total	103,646	\$ 15,608	\$ 8,078	111,176
Accumulated Depreciation	(47,164)			(52,837)
Total	\$ 56,482			\$ 58,339
NONEXPENDABLE TRUST FUNDS				
Land	\$ 49,399	\$ -	\$ -	\$ 49,399
PENSION TRUST FUNDS				
Land	\$ 60	\$ -	\$ -	\$ 60
Buildings/Improvements	342	13	-	355
Equipment	189	1	3	187
Subtotal/Total	591	\$ 14	\$ 3	602
Accumulated Depreciation	(254)			(279)
Total	\$ 337			\$ 323
GENERAL FIXED ASSETS ACCOUNT GROUP				
Land	\$ 52,227	\$ 419	\$ 72	\$ 52,574
Buildings/Improvements	217,881	9,800	138	227,543
Equipment	79,622	8,833	6,201	82,254
Other Fixed Assets	43,305	316	63	43,558
Construction in Progress	5,499	1,662	2,451	4,710
Total	\$ 398,534	\$ 21,030	\$ 8,925	\$ 410,639
HIGHER EDUCATION FUNDS				
Land	\$ 10,480	\$ 760	\$ 130	\$ 11,110
Buildings/Improvements	271,291	8,606	1,365	278,532
Equipment	85,584	12,853	11,257	87,180
Other Fixed Assets	50,712	7,096	1,295	56,513
Construction in Progress	2,814	332	394	2,752
Intangible Assets	1,119	466	145	1,440
Total	\$ 422,000	\$ 30,113	\$ 14,586	\$ 437,527

6. RETIREMENT SYSTEMS

A. Defined Contribution Plans - Effective January 1, 1988, eligible employees of the Montana University System (MUS) could elect to participate in the Optional Retirement Program (ORP). The ORP is a defined contribution retirement plan governed by Title 19, Chapter 21 of the Montana Code Annotated. The plan is underwritten by the Teachers' Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF) and only faculty and staff with contracts under the authority of the Board of Regents may elect to participate. Those faculty and staff members who do not elect ORP must participate in the Teachers' Retirement System, a defined benefit plan discussed in the next section.

The benefits at retirement depend upon the amount of contributions, amount of investment gains and losses and the employee's life expectancy at retirement. Under the ORP, each employee enters into an individual contract with TIAA-CREF. Individuals are immediately vested with all contributions. Higher education units record employee/employer contribution expenditures in the affected higher education subfund when remitting contributions to the Commissioner of Higher Education. These moneys are recorded in the Custodial Accounts Agency Fund. The Commissioner's Office then wire transfers the contributions to TIAA-CREF. The MUS is not liable for asset management or for providing benefits after the required contributions have been made to TIAA-CREF. Approximately 30% of eligible employees are members of the ORP. New employees have 90 days to make an election. Elections to a retirement plan are irrevocable during active employment. Employee contributions are 7.044% of salary and employer contributions are 2.956% of salary for a total of 10% of salary contributed to the ORP. There were no related party transactions in the current reporting period.

	<u>TIAA-CREF</u> <u>(in thousands)</u>
Covered Payroll	\$ 19,085
Total Payroll	66,379
Employer Contributions	\$ 564
Percent of Covered Payroll	2.956%
Employee Contributions	\$ 1,344
Percent of Covered Payroll	7.044%

B. Defined Benefit Plans - The State contributes to and/or administers nine retirement systems in four categories: (1) the State as the single employer; (2) the State as an employer contributor to cost-sharing multiple-employer plans; (3) the State as a nonemployer contributor to cost-sharing multiple employer plans; and (4) the State as an administrator - nonemployer, noncontributor.

The number of years required to obtain vested rights varies among the systems. All systems provide early retirement options, death benefits, termination (except VFRS) and disability benefits. All systems (except VFRS) provide post-retirement benefits. Post-retirement benefits for the GWRS, PERS, TRS and SRS are based on investment yield, retirees' total years of service, age and option chosen at the time of retirement. Post-retirement adjustments are made only in years when funding is available and does not increase the unfunded liability of the system. The post-retirement benefits of each of the remaining systems are included in the plan descriptions below.

The funding policies for each system provide for periodic employer and employee contributions (except VFRS) at rates specified by State law; contribution requirements are not actuarially determined. An actuary determines the actuarial implications of the funding requirement in a biennial actuarial valuation. VFRS is in the process of being valuated. The actuarial method used to determine the implications of the statutory funding level is the entry age normal funding method, with both normal cost and amortization of the unfunded accrued liability determined as a level percentage of payroll. To maintain the fund on an actuarially sound basis, the rate of contributions should fund the normal cost in addition to amortizing the unfunded liability over a period of 40 years. The Contributions Required (R) by State/Actual (A) Contributions section contains the number of years needed to fund the normal cost and amortize the unfunded liability. Additionally, each system functions uniquely as described below:

(1) State as the Single Employer

HPRS - Highway Patrolmen's Retirement System - This system, established in 1971 and governed by Title 19, Chapter 6 of the Montana Code Annotated, provides retirement services for all members of the Montana Highway Patrol, including supervisory personnel. Member and State contributions are 7.59% and 26.75%, respectively, of total salaries for active highway patrol officers. For members hired on or before July 1, 1985, there is no minimum age, but minimum service is 20 years for benefit eligibility. A member hired after July 1, 1985, must be 50 years old and have 20 years of creditable service for benefit eligibility. The service retirement allowance is based on a formula of 2% times the number of years of service times the final average salary. Post-retirement benefits are 2% of a probationary highway patrolman's salary adjusted for years of service. Rights are vested after five years of service.

JRS - Judges' Retirement System - This system, established in 1967 and governed by Title 19, Chapter 5 of the Montana Code Annotated, provides retirement services for all persons employed as a judge of a district court or justice of the Supreme Court. The member contributes 6% of their salary except those members elected or appointed after July 1, 1983, who contribute 7%. The State contributes 6% of active judges' salaries, district court fees equal to 31% of salaries payable to district court judges and Supreme Court justices, and 25% of Supreme Court fees. For benefit eligibility, minimum service is 5 years and minimum age is 65. The monthly retirement allowance formula is 3 1/3% times the number of years of service (to a maximum of 15 years) times 1/12 the final salary, plus 1% of such final salary for each year of service after 15 years. The JRS retirees can receive an increase in benefits based on legislative action. Rights are vested after five years of creditable service.

GWRS - Game Wardens' Retirement System - This system, established in 1963 and governed by Title 19, Chapter 8 of the Montana Code Annotated, provides retirement services for all persons employed as a game warden, including all supervisory personnel. The member contributes 7.9% of salary (optional after 25 years of membership). The State contributes 7.15% of active game wardens' salaries, plus all collections from fines and forfeited bonds related to fish and game law violations. For benefit eligibility, minimum age is 50 and minimum years of service are 20. A member may retire with ten years of service at age 55. The formula for a service retirement allowance is 2% times the number of years of service times the final average salary. Rights are vested after ten years of service.

(2) State as an Employer Contributor to a Cost-Sharing Multiple-Employer

PERS - Public Employees' Retirement System - This mandatory system, established in 1945 and governed by Title 19, Chapter 3 of the Montana Code Annotated, provides retirement services to substantially all public employees. For fiscal year 1991, the contribution rates are 6.30% and 6.417% of gross wages for employees and employers, respectively. Benefit eligibility is age 60 with at least 5 years of service; age 65 regardless of service; or 30 years of service regardless of age. Actuarially reduced benefits may be taken with 25 years

of service or at age 50 with at least five years of service. Beginning January 1, 1989, monthly retirement benefits are determined by taking 1/56 times the number of years of service times the final average salary. Members' rights are vested after 5 years of service.

TRS - Teachers' Retirement System - This mandatory system, established in 1937 and governed by Title 19, Chapter 4 of the Montana Code Annotated, provides retirement services to all persons employed as teachers or professional staff of any public elementary or secondary school, vocational-technical center or unit of the university system. Contribution rates are 7.044% of gross wages for employees and 7.459% of gross wages for employers. Eligibility is met with a minimum of 25 years of service or age 60 with 5 years of creditable service. The formula for annual benefits is 1/60 times creditable service times the final average compensation. Rights are vested after five years of creditable service. Vested employees may retire at or after age 50 and receive reduced retirement benefits.

(3) State as a Nonemployer Contributor to a Cost-Sharing Multiple-Employer

MPORS - Municipal Police Officers' Retirement System - The system, established in 1975 and governed by Title 19, Chapter 9 of the Montana Code Annotated, covers all municipal police officers of cities covered by the plan. Member contribution is 6% of salary for members employed prior to July 1, 1979, and 7.5% of salary for members employed on or after July 1, 1979. City contributions are 13.02% of active police officers' salaries. The State contributes 15.06% of active police officers' salaries. The State's contribution is funded from the premium tax on motor vehicle property and casualty insurance policies. Minimum years of service are 20 for benefit eligibility. There is no minimum age if first employed on or before July 1, 1975; age 50 if first employed after that date. Any officers meeting the eligibility requirements shall receive 1/2 their final average salary. For service greater than 20 years, the allowance will increase 1% of the final average salary per year of additional service up to a maximum of 60% of final average salary. Post-retirement benefits for those retiring before July 1, 1975, is the amount needed to provide 50% of the base salary of a newly confirmed police officer. Post-retirement benefits for those retiring between July 1, 1975, and July 1, 1985, are limited to the 1985 salary of a newly confirmed police officer. Rights are vested after ten years of service.

FURS - Firefighters' Unified Retirement System - This system, established in 1981 and governed by Title 19, Chapter 13 of the Montana Code Annotated, provides retirement services for all paid firefighters. Member contribution is 6% of base compensation, and city contributions are 13.02% of total annual compensation. The State contribution is 22.98% of total annual compensation for all firefighters and is paid out of the insurance premium tax fund. Minimum age is 50 and minimum service is 20 years for benefit eligibility. For members hired prior to July 1, 1981, with at least 20 years of service, the monthly service retirement benefit is equal to 1/2 of the final monthly compensation received plus an additional 1% for each year in excess of 20 years, up to a maximum benefit of 60% of final monthly compensation. For those hired after July 1, 1981, the first 25 years of service earn 1/2 of the final average salary plus an additional 2% for each year in excess of 25, up to a maximum of 5 additional years. Post-retirement benefits require that each retiree receive at least 50% of the salary paid a newly confirmed active firefighter. Rights are vested after ten years of service.

VFRS - Volunteer Firefighters' Retirement System - This system, established in 1965 and governed by Title 19, Chapter 12 of the Montana Code Annotated, provides medical benefits and retirement, disability and death benefits for all volunteer firefighters of unincorporated areas. The State contribution is 5% of fire insurance premium taxes collected. This retirement system is required by law to be fully funded and cannot pay benefits unless money is available. Rights are vested after 20 years of service.

(4) State as Administrator - Nonemployer, Noncontributor

SRS - Sheriffs' Retirement System - This system, established in 1974 and governed by Title 19, Chapter 7 of the Montana Code Annotated, covers all persons employed as sheriffs. The member contribution is 7% of salary; the county contribution is 7.67% of salary. Minimum years of service for benefit eligibility are 24 for members elected or appointed prior to July 1, 1989. For members elected or appointed on or after July 1, 1989, the minimum years of service are 24 and the minimum age is 50. The service retirement allowance is calculated at 2% of the final average salary for each year of creditable service, up to a maximum of 50% of final salary, plus 1.35% of the final average salary for each year of service in excess of 24 years, up to a maximum of 60% of earnings. Reduced benefits for early retirement may be taken with a minimum 15 years of service and minimum age of 50. Rights are vested after ten years of service.

C. Actuarial Data

Actuarial valuations are performed every two years excluding the VFRS. Data for the VFRS is not readily available for an actuarial valuation. The Public Employees' Retirement Division which administers the VFRS is currently in the process of developing a database to provide the necessary data for an actuarial valuation. Hendrickson, Miller & Associates Inc., Helena, MT, prepared the actuarial reports for the other retirement systems, excluding TRS, and is responsible for completing the actuarial valuation for the VFRS. In fiscal year 1991, Milliman & Robertson, Inc., of Seattle, WA., performed the actuarial update for TRS. The following table discloses various information by retirement system (dollar amounts expressed in thousands) as of June 30, 1991. Although specific total payroll amounts are not available, substantially all of total payroll is covered.

	HPRS	JRS	GWS	PERS	TRS	MPORS	FURS	SRS	VFRS
Membership									
Receiving Benefits	191	31	59	10,429	6,721	429	396	93	521
Vested Term. Employee	2	5	-	927	5,571	2	11	15	N/A
Non-vested Term. Employee	4	-	4	4,504	-	10	18	48	N/A
Vested Active Employees	137	28	91	16,838	10,656	294	83	198	N/A
Non-vested Active Employees	66	15	-	10,070	5,626	151	333	327	N/A
Total	400	79	154	42,768	28,574	886	841	681	521

Plan Descriptions

Total Covered Payroll	\$ 5,423	\$ 2,308	\$ 2,423	\$485,186	\$445,933	\$11,800	\$10,653	\$12,905	N/A
State Covered Payroll	\$ 5,423	\$ 2,308	\$ 2,423	\$262,440	\$ 66,636	N/A	N/A	N/A	N/A

Related Party Disclosures

Related Parties	NONE	NONE	NONE	NONE	NONE	NONE	NONE	NONE	N/A
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Funding Status & Progress

Last Actuarial Valuation	7/01/90	7/01/90	7/01/90	7/01/90	7/01/90	7/01/90	7/01/90	7/01/90	(12)
Actuarial Update	7/01/91	7/01/91	7/01/91	7/01/91	7/01/91	7/01/91	7/01/91	7/01/91	(12)
Return on Investments	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	(12)

Projected Salary Increases:

Inflation	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	(12)
Merit	NONE	NONE	NONE	NONE	NONE	NONE	NONE	NONE	(12)
Changes In Post-retirement	6.5%	6.5%	NONE	NONE	NONE	NONE	6.5%	NONE	(12)

PBO (1):

Retirees, beneficiaries (2)	\$26,196	\$10,507	\$ 6,826	\$ 506,864	\$ 547,000	\$41,088	\$46,156	\$ 8,065	(12)
Current Employees (3)	6,092	1,602	2,932	312,076	374,900	8,255	8,902	8,742	(12)
Employer-financed vested	19,790	7,527	3,592	332,691	393,400	24,411	16,578	8,457	(12)
Employer-financed non-vested	881	1,118	108	22,222	4,700	2,197	22,107	1,522	(12)
Total PBO	\$52,959	\$20,754	\$13,458	\$1,173,853	\$1,320,000	\$75,951	\$93,743	\$26,786	(12)
Net Assets Available for Benefits at Cost*	\$28,192	\$14,427	\$11,693	\$ 919,474	\$ 761,463	\$37,703	\$38,238	\$36,739	\$7,656
Unfunded PBO	\$24,767	\$ 6,327	\$ 1,765	\$ 254,379	\$ 558,537	\$38,248	\$55,505		(12)
Assets in Excess of PBO							\$ 9,953		

*At Market Value

\$30,512 \$15,782 \$12,943 \$1,036,514 \$ 837,699 \$40,217 \$39,807 \$39,349 \$7,910

Contributions Required (R) by Statute/Actual (A) Contributions (4) (Statute Req. is Actuarially Determined)

Total Contributions	\$ 2,150	\$ 855	\$ 667	\$ 63,649	\$ 66,016	\$ 4,838	\$ 5,351	\$ 1,966	N/A
Normal Cost	1,394	994	378	52,159	35,684	2,778	2,197	1,700	N/A
% Of Covered Payroll	25.71%	43.07%	15.60%	10.75%	8.00%	23.54%	20.62%	13.17%	N/A
Amort Unfunded Liab	756	-	289	11,490	30,332	2,060	3,154	266	N/A
% of Covered Payroll	13.94%	-	11.93%	2.37%	6.80%	17.46%	29.61%	2.06%	N/A
Years Req. to Fund Normal Cost & Amortize Unfunded Liab.	31.97	26.72	8.78	21.76	36.31	26.19	33.54	0.0	(12)
Employer Contributions (A)	\$ 1,686	\$ 694	\$ 473	\$ 31,219	\$ 33,422	\$ 1,537	\$ 1,388	\$ 1,007	(12)
% of Covered Payroll (A)	31.09%	30.1%	19.52%	6.434%	7.495%	13.03%	13.03%	7.80%	(12)
% of Covered Payroll (R)	26.75%	6.0%	7.15%	6.417%	7.459%	13.02%	13.02%	7.67%	(12)
	(5)	(6)	(7)						
State Contributions (A)	\$ 1,686	\$ 694	\$ 473	\$ 16,851	\$ 4,970	N/A	N/A	N/A	N/A
% of Employer Cont. (A)	100%	100%	100%	54.0%	14.9%	N/A	N/A	N/A	N/A
Employee Contributions (A)	\$ 464	\$ 161	\$ 194	\$ 32,430	\$ 32,594	\$ 818	\$ 640	\$ 959	(12)
% of Covered Payroll (A)	8.56%	7.0%	8.0%	6.684%	7.309%	6.93%	6.01%	7.43%	(12)
% of Covered Payroll (R)	7.59%	6.0%	7.9%	6.3%	7.044%	(9)	6.0%	7.0%	(12)
	(8)								
Other Contributions (A)	-	-	-	-	-	\$ 2,483	\$ 3,323	-	601
% of Covered Payroll (A)	-	-	-	-	-	21.04%	31.19%	-	(12)
% of Covered Payroll (R)	-	-	-	-	-	(10)	(11)	-	(12)

- (1) The amounts shown as the PBO ("Pension Benefit Obligation") are standardized disclosure measures of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of the system on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among employers. The measure is the actuarial present value of credited projected benefits and is independent of the funding method used to determine contributions to the systems. The significant actuarial assumptions used in the annual evaluations are the assumptions used in the PBO determination.
- (2) Retirees, beneficiaries receiving benefits and terminated employees not yet receiving benefits.
- (3) Current employees - accumulated employee contributions including allocated investment earnings.
- (4) Actual percentages exceed required percentages (unless otherwise footnoted) because contributions include amounts for buybacks.
- (5) The employer's contributions include fees from drivers' licenses and vehicle registrations.
- (6) The employer also contributes District Court Fees equal to 31% of covered payroll and 25% of Supreme Court Fees. However, during the year ending June 30, 1991, actual contributions did not cover the year's normal cost.
- (7) The employer's contribution includes all collections from fines and forfeited bonds related to fish and game law violations.
- (8) For members elected or appointed after July 1, 1983, the contribution rate is 7% of salary.
- (9) Members employed before July 1, 1979, contribute 6.0% of salary; members employed on or after July 1, 1979, contribute 7.5% of salary.
- (10) The 15.06% of active policemen's salaries contributed from a premium tax on motor vehicle property and casualty insurance policies includes \$1,067,736 for post-retirement benefits for members retired before July 1, 1985.
- (11) The 22.98% of total firefighters compensation contributed from a premium tax on insurance risks includes \$979,856 for post-retirement benefits for retired members.
- (12) This retirement plan is in the process of being actuarially valued. The State contributes 5% of fire insurance premium taxes collected.

D. Trend Information

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. Available 10-year trend information for HPRS, JRS, GWRS, PERS, TRS, MPORS, FURS, and SRS are found in the annual reports for these retirement systems.

REQUIRED SUPPLEMENTARY INFORMATION Analysis of Funding Progress

		<u>HPRS</u>	<u>JRS</u>	<u>GWRS</u>	<u>PERS</u>	<u>TRS</u>	<u>MPORS</u>	<u>FURS</u>	<u>SRS</u>
Net Assets Available for Benefits									
Expressed as a % of PBO									
(Percentage Funded)									
	1989...	53.5%	71.5%	82.2%	73.1%	56.4%	47.4%	34.1%	142.4%
	1990...	56.1%	71.7%	83.9%	76.9%	57.1%	49.4%	37.4%	138.6%
	1991...	53.2%	69.5%	86.9%	78.3%	57.7%	49.6%	40.8%	137.2%
Unfunded PBO, Expressed as % of									
Annual Covered Payroll									
	1989...	394.4%	222.3%	97.8%	63.7%	133.2%	345.5%	591.5%	N/A
	1990...	387.1%	231.8%	92.3%	53.1%	130.6%	345.1%	573.1%	N/A
	1991...	456.7%	274.1%	72.8%	52.4%	125.2%	324.1%	521.0%	N/A
Employer Contributions Expressed									
as a % of Annual Covered									
Payroll									
	1989...	26.0%	30.8%	20.0%	6.441%	7.973%	14.05%	13.05%	7.84%
	1990...	32.9%	30.8%	20.7%	6.417%	7.802%	13.02%	13.05%	8.10%
	1991...	31.09%	30.1%	19.52%	6.434%	7.495%	13.03%	13.03%	7.81%

7. SELF-INSURANCE FUNDS

The State of Montana maintains several self-insurance plans. A brief description of each plan and the method of recording transactions are discussed below:

A. Group Employee Comprehensive Medical and Dental Plan - This plan is fully self-insured, with the State assuming all the risk for claims incurred by employees of the State, elected officials, retirees and their dependents. There is no third party coverage. Premiums are collected through payroll deductions, deductions through the Public Employees' Retirement System and self-payment and are recorded as revenue in the Employees' Group Benefits Enterprise Fund.

In July 1991, incurred but not reported claims were estimated to be \$5,360,016 based on a formula provided by Martin E. Segal Company, a consulting actuarial firm. A liability is recorded in the accompanying financial statements for these estimated claims.

Postemployment Benefits - In addition to the pension benefits described in Note 6, Retirement Systems, the State provides 18 to 36 months optional postemployment healthcare benefits in accordance with Public Law 99-272, known as the Federal Consolidated Omnibus Reconciliation Act (COBRA) to the following employees and dependents who elect to continue and pay administratively established premiums: (1) employees who are receiving employee healthcare benefits at the time they discontinue State employment, and (2) dependents who lose dependent eligibility. Currently 186 individuals are receiving these benefits.

In accordance with State statute 2-18-704 MCA, the State also provides optional postemployment healthcare benefits to the following employees and dependents who elect to continue coverage and pay administratively established premiums: (1) employees who retire under applicable retirement provisions and (2) surviving dependents of deceased employees. Retirement eligibility criteria differ by retirement system (See Note 6). Administratively established premiums vary between \$82 and \$219 per month depending on coverage ranging from retirees only to retirees, spouses, and children, medicare or non-medicare eligible. The State acts as secondary payor for Medicare-eligible claimants. Currently 2,122 retirees are receiving healthcare benefits.

After an annual \$175 deductible, the State reimburses 75% of the first \$2,500 in validated medical claims and 100% of any remaining validated health claims in the year. Dental claims are reimbursed at 50% to 100% depending on the services provided. The State funds claims on a pay-as-you-go basis. During the fiscal year, expenditures of \$5,277,822 were recognized for postemployment healthcare benefits. Of this amount, \$3,615,174 was covered by former employees' premium contributions and \$1,662,648 of claims in excess of premium revenue was paid by the State.

B. Montana University System (MUS) Group Benefits Plan - This plan was authorized by the Regents to provide medical, dental, and vision insurance coverage to employees of the Montana University System, as well as their dependents, retirees, and COBRA members. Beginning July 1, 1990, the MUS Group Benefits Plan is fully self-insured with a stop loss underwritten by United of Omaha at 125% of expected claims. United of Omaha is the claims administrator on the plan. Managed Care Montana (Blue Cross/Blue Shield of Montana) has a contract for utilization management. The utilization management program consists of hospital pre-authorization, case management and medical necessity review. Premiums are collected from employees through payroll deductions and recorded in the MUS Group Insurance Enterprise Fund.

The self-insured plan is reinsured at 125% of expected claims. The incurred but not reported claims are estimated to be \$2,000,000 as of June 30, 1991. A liability is recorded in the accompanying financial statements for these estimated claims.

Postemployment Benefits - In addition to the pension benefits described in Note 6, Retirement Systems, the Montana University System (MUS), under State statute 2-18-702 MCA, provides postretirement health insurance benefits. Eligible employees must receive a retirement benefit from the Teachers Retirement System (TRS), Public Employees Retirement System (PERS), or an annuity under the Optional Retirement Plan. Spouses, unmarried dependent children, and surviving spouses are also eligible.

Administratively established premiums vary between \$79 and \$228 per month and are revised annually. Medicare eligible plan members are assumed to be Medicare-insured. After an annual \$250 deductible, MUS reimburses 80% of the first \$3,000 in medical claims in excess of \$600 and 100% thereafter. The plan automatically reduces claim reimbursement for members eligible for Medicare even if not enrolled in Medicare. Currently 983 retirees are enrolled in the MUS plan.

Funding for the retiree health plan is on a pay-as-you-go basis. During the fiscal year, expenditures of \$1,774,668 were recognized for postemployment healthcare benefits. Of this amount, \$1,299,439, was covered by former employees' premium contributions and \$475,229 of claims in excess of premium revenue was paid by the State.

C. Property Insurance Plans - This self-insurance plan provides coverage for general liability, automobile liability, automobile physical damage, retail liquor stores inventory and State-administered foreclosure housing units. The State self-insures the \$150,000 deductible per occurrence for property insurance. The third party pays the next \$50 million per occurrence. Premiums are collected from all State agencies including Higher Education Units and recorded as revenue in the Administration Insurance Internal Service Fund.

A liability of \$2,336,675 is recorded in the accompanying financial statements for those claims assessed by management to result in a probable liability to the State. In addition, retained earnings in the Administration Insurance Internal Service Fund are reserved for payment of future claims.

Based on the most recent actuarial report, prepared by Coopers & Lybrand and issued for the accident period 7/1/77-6/30/90, the fund balance reserve at June 30, 1991, is estimated to be insufficient by \$14.1 million.

8. DEFERRED COMPENSATION PLAN

Since 1976, the State of Montana has offered a deferred compensation plan which allows employees to set aside a portion of their salary each payday towards retirement while deferring the State and Federal income taxes until future years. The payroll deferrals are invested with Nationwide Insurance. All employees of the State are eligible to participate. The plan operates under the sanction of both State and Federal laws (Section 457 of the Internal Revenue Code). The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts and all income attributable to those amounts, property or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the State (without being restricted to the provisions of benefits under the plan), subject only to the claims of the State's general creditors. In the past, the plan assets have been used for no purpose other than to pay benefits. The State believes it is unlikely it will use the assets to satisfy the claims of general creditors in the future because of the contractual arrangement with Nationwide Insurance and the State's obligation to participants for their account balance. State statute provides that the State and its political subdivisions are not liable for any investment losses incurred by any eligible deferred compensation plan. However, the State does have the duty of care required of an ordinary prudent investor. As of June 30, 1991, the net assets of the plan available for benefits totaled \$70.674 million.

The following table provides a summary of the increases and decreases of the Employees Deferred Compensation Agency Fund for the fiscal year ended June 30, 1991, (in thousands):

Fund Assets (at market value), July 1, 1990	\$ 65,728
Deferrals of compensation	6,274
Earnings and adjustment to market value	5,798
Payments to eligible participants and beneficiaries	(6,846)
Administrative expenses	(280)
Fund Assets (at market value), June 30, 1991	<u>\$ 70,674</u>

9. UNEMPLOYMENT INSURANCE COMPENSATION

Unemployment compensation benefits are funded in the State through unemployment insurance taxes levied against employers. The funds collected from this tax are deposited in the Unemployment Insurance Clearing Account and transferred daily to a trust fund in Washington, D.C. The United States Secretary of the Treasury is the trustee of this fund. The moneys are then transferred back to the State's Benefit Payment Account for disbursement as unemployment insurance benefits. Transfers are made daily at the request of the Montana Department of Labor and Industry. The benefits are accounted for in an Expendable Trust Fund. As of June 30, 1991, the State's trust fund had a fund balance of \$81.534 million.

10. RISK MANAGEMENT--PUBLIC ENTITY RISK POOLS

The State of Montana has five public entity risk pools that are properly reported within the Enterprise Fund Type: State Compensation Mutual Insurance (New Fund), State Compensation Mutual Insurance (Old Fund), Nail Insurance, Uninsured Employers', and Subsequent Injury Funds. In all of these funds there are no significant reductions in insurance coverage from the prior year, nor any insurance settlements exceeding insurance coverage. None of these funds have acquisition costs; therefore, no cost is amortized for the period. Unpaid claims and claim adjustment expenses are estimated based on the ultimate cost of settling the claims including the effects of inflation and other societal/economic factors. These funds use the accrual basis of accounting. By statute, these funds cannot invest in common stock. Investments are recorded at amortized cost. Premiums and discounts are amortized using the straight-line method over the life of the securities. An average life of eight years is used for amortization of mortgage discounts.

A. State Compensation Mutual Insurance (New Fund) - Liability coverage to employers for injured employees that are insured under the Workers' Compensation and Occupational Disease Acts of Montana and workers' compensation claims occurring on or after July 1, 1990, are reported in the State Compensation Mutual Insurance Fund (State Fund-New). The State Fund-New must insure any employer who desires coverage. At fiscal year-end, approximately 26,500 employers were insured with the State Fund-New. Montana state governmental agencies must obtain their workers' compensation coverage through the State Fund-New. Anticipated investment income is considered for computing a premium deficiency and employers must pay premiums to the State Fund within specified timeframes.

An actuarial study prepared by Tillinghast, a Towers Perrin company, as of June 30, 1991, has estimated liabilities and the ultimate cost of settling claims that have been reported but not settled and claims that have been incurred but not reported. Because actual claim costs depend on such complex factors as inflation and changes in the law, claim liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and societal factors.

A provision for inflation in the calculation of estimated future claim costs is implicit in the calculation because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. At June 30, 1991, \$119,619,000 of unpaid claims and claim adjustment expenses are presented at their net present value of \$91,225,000. These claims are discounted at an annual rate of 7% (See Notes 15 and 17).

The State Fund uses reinsurance agreements to reduce its exposure to large losses. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the Fund as direct insurer. The State Fund did not deduct any claim liabilities related to potential reinsurance recoverable. When the State Fund purchases annuity contracts, the claim is settled in full and on a final basis; all liability of the State Fund-New is terminated.

Statute requires the State Fund-New set premiums at least annually at a level sufficient to ensure adequate funding of the insurance program during the period the rates will be in effect. On June 21, 1991, the Montana Health Care Association, Discovery Care Center and Valley Nursing Inc. filed a petition in district court for a writ of mandamus requesting that the State Compensation Mutual Insurance Fund (State Fund-New) be generally prohibited from implementing its fiscal year 1992 premium rate increase. Should the State Fund-New incur an unfavorable outcome in this matter, the potential loss in premium revenue would be approximately \$15.0 million not including losses of investment earnings.

B. State Compensation Mutual Insurance (Old Fund) - The liability and payment of workers' compensation claims for incidents occurring before July 1, 1990, are reported in the State Compensation Mutual Insurance Fund (State Fund-Old). This fund is prohibited by statute from paying dividends until its unfunded liability has been eliminated. There is no premium income; however, funding for claim payments is provided by a 0.28 % payroll tax on all Montana employers. The 1991 Legislature authorized issuance of revenue bonds to provide necessary operating cash to pay the liabilities of pre-July 1, 1990, accidents. The employer payroll tax will provide funding for bond payments. An actuarial study prepared by Tillinghast, a Towers Perrin company, as of June 30, 1991, was used to estimate liabilities and the ultimate cost of settling claims that have been reported but not settled and claims that have been incurred but not reported. At June 30, 1991, \$433,454,000 of unpaid claims and claim adjustment expenses are presented at face value. This fund generates little interest earnings, does not discount estimated claims liabilities, and does not compute a premium deficiency (See Notes 15 and 17).

C. Hail Insurance - Any producer engaged in growing crops subject to destruction or damage by hail may participate in the hail insurance program. Approximately 2,800 producers participated in this program in 1990 and 1991. This fund accounts for premium assessments paid by producers for crop acreage insured, investment and interest earnings, administrative costs and claims paid for hail damage. Depending upon the damage in a season, producers may be assessed for a premium deficiency or receive a refund. Anticipated investment income is considered in computing a premium deficiency of which there is none.

A claim must be submitted to the State Board of Hail Insurance within fourteen days of a loss occurrence. It must be indicated whether the grain is stemming, in the boot, heading out, in the mill, in the stiff dough, ready to bind, head or combine. If bean, peas or other crops are damaged, the growth-state must also be indicated. Inspection of a crop will occur as promptly as possible after claim receipt and no later than September 30. The insurance only covers loss or damage to growing grain which exceeds 5% destruction by hail.

At June 30, 1991, this fund recorded a liability of \$ 1,623,000 based on the number of acres damaged by hail multiplied by moving average of losses paid per acre in the past five years. Any crop insurance liability is paid to producers within one year of occurrence; therefore, liabilities are not discounted. The fund has no excess insurance, reinsurance, or annuity contracts.

D. Uninsured Employers - This fund provides benefits to claimants injured while working for uninsured employers and is funded by penalties collected from employers without workers' compensation insurance. Section 39-71-503(2) of the Montana Code Annotated prohibits the fund from maintaining surpluses and reserves. Claims are paid on a monthly, first-in, first-out basis with wage loss benefits paid first, and medical benefits paid next, but only if sufficient funds are available. There is no premium deficiency and/or limitations on revenue collected or benefits that can be paid. Claims that are denied for payment because of insufficient cash may not be resubmitted; therefore, there are no incurred but not reported claims liability. Also, there are no annuities purchased nor excess insurance or reinsurance.

E. Subsequent Injury - This fund provides benefits to workers certified as vocationally handicapped who are injured on the job and entitled to benefits under the Workers' Compensation or Occupational Disease Act at the time of injury. Workers' compensation coverage will reimburse the insurer for benefits paid up to 104 weeks (2 years) of the date of injury for certified individuals. Thereafter, this fund will pay benefits. In Montana, there are approximately 1,500 individuals certified as vocationally handicapped.

Workers' compensation insurance premium experience modification factors are influenced by the 2 year limitation and employers may experience an insurance premium reduction. Therefore, this fund provides employers with a potential incentive for hiring the certified vocationally handicapped.

This fund makes no provision for insured events of the current year. All Montana insurers are annually assessed an amount of up to 5% of each insurer's compensation payments for the previous fiscal year. An estimated liability is recorded based on a projected cost (case-by-case) analysis of each injured, certified, vocationally handicapped worker. As of June 30, 1991 the amount of this liability is estimated to be \$633,000.

F. Changes in Claims Liabilities For the Past Two Years - As indicated above, these funds establish liabilities for both reported and unreported insured events including estimates of future payments of losses and related claim adjustment expenses. Except for the State Fund-New which commenced operations on July 1, 1990, the following tables present changes (in thousands) in those aggregate liabilities during the past two years.

All information in these tables, except for the 1990 information presented for the State Fund-Old, is presented at face value and has not been discounted. The 1990 information for the State Fund-Old, including the beginning unpaid claims and claim adjustment expenses in 1991, are discounted; undiscounted information is not available. The \$241,982,000 increase in provision for incurred claims and claim adjustment expenses for insured events of prior years reported in 1991 includes a \$98,187,000 increase as a result of reporting a discounted liability at June 30, 1990, and an undiscounted liability at June 30, 1991.

	STATE COMPENSATION MUTUAL INSURANCE (NEW FUND) 1991	STATE COMPENSATION MUTUAL INSURANCE (OLD FUND) 1991 1990	HAIL INSURANCE 1991 1990
Unpaid claims and claim adjustment expenses at beginning of year	\$ -	\$294,464 \$264,596	\$ 770 \$ 193
Incurred claims and claim adjustment expenses:			
Provision for insured events of the current year	137,237	- 83,713	4,545 2,024
Increases in provision for insured events of prior years	-	241,982 39,637	- -
Total incurred claims and claim adjustment expenses	137,237	241,982 123,350	4,545 2,024
Payments:			
Claims and claim adjustment expenses attributable to insured events of the current year	(17,618)	- (16,300)	(2,922) (1,254)
Claims and claim adjustment expenses attributable to insured events of prior years	-	(102,992) (77,182)	(770) (193)
Total payment	(17,618)	(102,992) (93,482)	(3,692) (1,447)
Total unpaid claims and claim adjustment expenses at end of the year	\$119,619	\$433,454 \$294,464	\$1,623 \$ 770

	UNINSURED EMPLOYERS' 1991 1990	SUBSEQUENT INJURY 1991 1990
Unpaid claims and claim adjustment expenses at beginning of year	\$ - \$ -	\$ 966 \$1,144
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current year	182 59	- -
Increases in provision for insured events of prior years	130 275	98 217
Total incurred claims and claim adjustment expenses	312 334	98 217
Payments:		
Claims and claim adjustment events of the current year	(182) (59)	- -
Claims and claim adjustment expenses attributable to insured events of prior years	(130) (275)	(431) (395)
Total payment	(312) (334)	(431) (395)
Total unpaid claims and claim adjustment expenses at end of the year	\$ - \$ -	\$ 633 \$ 966

G. Risk Management Trend Information

The following table only presents risk management trend information for the State Compensation Mutual Insurance (New Fund). Only the State Fund-New has a three to five year development cycle as was contemplated by GASB Statement 10. The State Compensation Mutual Insurance (Old Fund) does not charge a premium for its services; its funding source is the employer payroll tax. The Hail Insurance Fund pays claims within a calendar year cycle that parallels the growing season from spring planting to fall harvesting; therefore, it has no three to five year development cycle. State statute limits the payment of claims and the collection of premiums (and penalties) for the Subsequent Injury and Uninsured Employers' Fund from any developmental cycle.

The table below illustrates how the earned revenues (net of reinsurance) of the State Fund-New and its investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the fund as of the end of the fiscal year (in thousands). Line 3 shows the fund's incurred claims and allocated claim adjustment expense (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year). As data for individual policy years mature, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. This is the first year of development of trend information. This table will be expanded and revised as data for successive policy years develops.

	STATE COMP. MUTUAL INS. (NEW FUND) <u>1991</u>
1. Net earned required contribution and investment revenues	\$ 105,542
2. Unallocated expenses including overhead	2,388
3. Estimated incurred claims and expenses, end of policy year	119,619
4. Paid (cumulative) as of end of policy year	17,618.

11. COMMITMENTS

A. Highway Construction - At June 30, 1991, the Department of Highways had contractual commitments of approximately \$81.5 million for construction of various highway projects. Funding for these highway projects is to be provided from federal grants and matching special revenue funds.

B. Capital Construction - At June 30, 1991, the Department of Administration, Architecture & Engineering Division, had commitments of approximately \$18.5 million for capital projects construction. Funding for these projects is to be provided from special revenue funds, capital projects funds, proprietary funds and higher education funds.

C. Proprietary Fund Commitments - Fixed budgets are legally adopted in Enterprise and Internal Service Funds (excluding depreciation, compensated absences and bad debt expense). Current year appropriations may be committed for goods/services that are not received as of fiscal year-end. These executory commitments are included in unreserved retained earnings in the accompanying financial statements as follows (in thousands):

	<u>AMOUNT</u>
<u>Enterprise Funds</u>	
Housing Authority	\$ 23
State Compensation Mutual Insurance(New Fund)	55
Employees Group Benefits	1
Liquor Stores	14
Hail Insurance	1
Prison Industries	55
Historical Society Publications	2
Local Government Audits	3
Subtotal-Enterprise Funds	<u>\$ 154</u>
<u>Internal Service Funds</u>	
Highway Equipment	\$ 317
Communications	5
Admin. Insurance	5
Central Data Processing	13
FWP Equipment	33
Motor Pool	22
Admin. Property & Supply	65
Publications & Graphics	4
Buildings & Grounds	109
Commerce Central Services	32
FWP Warehouse Inventory	7
Investment Division	1
Labor Central Services	35
Subtotal-Internal Service Funds	<u>\$ 648</u>
Total-Proprietary Funds	<u>\$ 802</u>

12. LEASES/INSTALLMENT PURCHASES

The State has entered into various capital and operating leases for land, buildings, equipment and computer software. Lease contracts are required by law to contain a clause indicating continuation of the lease is subject to funding by the Legislature. It is expected that in the normal course of operations most of these leases will be replaced by similar leases.

A. Capital Leases/Installment Purchases

Changes in capitalized leases/installment purchases follow (in thousands):

	Balance July 1, 1990	Additions (Deductions)	Balance June 30, 1991
General Long-Term Obligations	\$ 1,339	\$ 999(1)	\$ 2,338
Proprietary Fund Types			
Enterprise Fund	\$ 166	\$ (164)	\$ 2
Internal Service Fund	5,979	(183)	5,796
Total Proprietary	\$ 6,145	\$ (347)	\$ 5,798
Higher Education Funds	\$ 710	\$1,842	\$ 2,552
Total Capitalized Leases/ Installment Purchases	\$ 8,194	\$2,494	\$ 10,688

(1) This amount consists of \$624,000 as additions; \$807,000 of additions as adjustments; and \$432,000 as deductions. The \$807,000 of additions as adjustments is a building leased to the Department of Administration by the Teachers' Retirement System and in turn subleased to the Department of Social and Rehabilitation Services for a rental payment equal to the cost of the original lease. In prior years, this lease-purchase agreement for the SRS Building was classified as general obligation debt.

Future minimum lease payments under capital leases/installment purchases are as follows (in thousands):

Fiscal Year Ending June 30	General Long-Term Obligations	Proprietary Fund Types Enterprise	Internal Service	Higher Education Funds	Totals
1992	\$ 698	\$ 1	\$ 2,443	\$ 692	\$ 3,834
1993	691	1	2,291	645	3,628
1994	538	1	1,060	593	2,192
1995	420	-	352	715	1,487
1996	328	-	274	556	1,158
After 1996	193	-	226	20	439
Total minimum payments	\$ 2,868	\$ 3	\$ 6,646	\$3,221	\$ 12,738
Less: Interest	(530)	(1)	(850)	(669)	(2,050)
Present value of minimum payments	\$ 2,338	\$ 2	\$ 5,796	\$2,552	\$ 10,688

B. Operating Leases - Total rental payments for operating leases in fiscal year 1991 were \$4,079,184. Future rental payments for operating leases are as follows (in thousands):

Fiscal Year Ending June 30	Amount
1992	\$ 3,822
1993	2,440
1994	1,200
1995	819
1996	555
After 1996	1,180
Total future rental payments	\$10,016

13. STATE DEBT

A. General Information - The State has no constitutional limit on its power to issue obligations or incur debt other than a provision that no debt may be created to cover deficits incurred because appropriations exceeded anticipated revenues. The Board of Examiners (consisting of the Governor, Secretary of State and Attorney General) is authorized, pursuant to various enabling acts, to issue bonds and notes of the State.

B. Short-Term Debt - The Board of Examiners, upon recommendation of the Department of Administration, may issue notes in anticipation of the receipt of taxes and revenues. No notes may be issued to refund outstanding notes. The notes must be redeemed by the end of the fiscal year in which issued.

At June 30, 1991, Bonds/Notes Payable includes short-term notes payable of \$32,000,000 in the Enterprise Fund. These are loans made from the State Compensation Mutual Insurance (New Fund) to the State Compensation Mutual Insurance (Old Fund) to provide cash for payment of claims. The notes were repaid in August 1991.

C. Long-Term Debt - The full faith, credit and taxing powers of the State are pledged for the payment of all general obligation debt. Revenue bonds and mortgage bonds are secured by a pledge of resources from the facilities to which they relate and by certain other revenues, fees and assets of the State and the various colleges and universities. Long-term debt (excluding bonds/notes of Enterprise Funds discussed elsewhere in this footnote; Leases - Note 12; and Compensated Absences - Note 1) of the State at June 30, 1991, is as follows (in thousands):

General Obligation Debt	Series	Amount Issued	Interest Range (%)	Principal Payments		Balance June 30, 1991
				FY 1992	In Year of Maturity(9)	
Highway Bldg Complex	1976	\$ 7,400	4.1-6.1	\$ 480	\$ 600 (1996)	\$ 2,685
GO Refunding	1983A	58,160	8.875-9.0	6,650	590 (2010)	53,085
Long-Range Bldg Program	1983B	39,330	6.0-8.2	1,315	195 (1995)	1,855
Water Development Program (1)	1984A	900	8.4-9.2	150	150 (1996)	750
Long-Range Bldg Program	1985A	8,550	5.75-8.0	275	150 (2001)	2,275
Water Development Program (1)	1985B	1,000	5.75-7.7	125	175 (1996)	750
Renewable Resource Development (1)	1985C	1,100	5.75-7.7	125	200 (1996)	850
Water Development Program (1)	1985D	1,000	5.5-6.875	100	125 (1996)	575
Water Development Program (1)	1988	500	9.4	15	50 (2009)	480
Water Development Program (1)	1989B	500	8.55	10	50 (2010)	490
Long-Range Bldg Program	1989	3,540	6.25	665	795 (1995)	2,910
Water Development Program (1)(2)	1991A	750	8.0-8.5	-	90 (2007)	750
Wastewater Treatment Works (3)	1991B	2,595	5.0-6.8	-	215 (2014)	2,595
Total General Obligation Debt		\$125,325		\$9,910		\$ 70,050
Special Revenue Bonds						
Department of Highways (4)	1987	\$150,000	5.5-7.2	\$ -	\$16,660 (2006)	\$150,000
Water Dev. Program (5)	1985A	16,865	5.75-9.625	380	1,295 (2006)	11,145
Water Conservation (6)	-	535	3.463-5.0	15	3 (2016)	353
Broadwater Power Project (5)(7)	1987A	22,200	12.0	-	2,400 (2018)	22,200
Water Dev. Program (5)	1987C	1,215	5.5-7.6	30	120 (2008)	1,130
Water Dev. Program (5)	1988A	1,720	6.75-7.3	45	160 (2009)	1,635
Water Dev. Program (5)	1989A	6,000	5.7-6.9	165	520 (2010)	5,845
Broadwater Power Project (5)(8)	1990A	3,800	9.5	220	505 (2002)	3,800
Water Development Program (5)	1990B	9,625	6.0-7.2	355	955 (2007)	9,625
Total Special Revenue Bonds		\$211,960		\$ 1,210		\$205,733
TOTAL GENERAL LONG-TERM OBLIGATIONS ACCOUNT GROUP						\$275,783

- (1) All Water Development Program Bonds and the Renewable Resource Development (1985C) Bonds are secured additionally by a pledge of and payable from certain coal severance taxes. Series 1985B, 1985C, 1988, 1989B and 1991A bonds are also secured by a pledge of loan repayments from loans made from the bond proceeds.
- (2) First payment of \$25,000 is due in 1993.
- (3) First payment of \$65,000 is due in 1994.
- (4) First payment of \$7,820,000 is due in 1994.
- (5) Issued by the Department of Natural Resources and Conservation (DNRC) and backed by a pledge of coal severance taxes.
- (6) Bonds were sold to Farmers Home Administration.
- (7) First payment of \$700,000 is due in 2003.
- (8) Bonds were sold to the Board of Investments.
- (9) Year of Maturity refers to fiscal year.

Board of Regents Issues Higher Education Units	Series	Amount Issued	Interest Range (%)	Principal Payments		Balance June 30, 1991
				FY 1992	In Year of Maturity	
Pooled Equip. Financing (U of M & EMC)	1988A	\$ 4,110	5.95-6.15	\$ 672	\$1,398 (1993)	\$ 2,070
University of Montana (U of M)	1987A-B/1985A-B	21,784	5.0-9.75	1,100	1,660 (2008)	14,806
Montana State University (MSU)	1985B/1986A/1987A	43,690	5.1-8.65	735	7,345 (2010)	40,800
Montana College of Mineral Science & Technology (TECH)	1986A	6,745	4.5-7.625	145	1,070 (2010)	6,120
Eastern Montana College (EMC)	1985B/1988A	11,440	5.25-8.375	365	1,160 (2004)	9,955
Northern Montana College (NMC)	1986C/1987A	1,670	5.75-8.75	84	140 (2008)	1,395
Western Montana College (WMC)	1966B-D/1967A-B/1985B	1,926	3.0-7.75	80	16 (2007)	732
Total Higher Education Bonded Debt		<u>\$91,365</u>		<u>\$3,181</u>		<u>\$ 75,878</u>
Higher Ed Nonbonded Debt						
EMC Mortgage Payable		\$ 170	10.5	\$ 17	\$ 17 (1993)	\$ 34
EMC Computer Site Note Payable		100	None	10	10 (1993)	20
EMC Library Note		250	6.42	76	90 (1994)	250
U of M Mortgage Payable		105	Variable	2	2 (2012)	97
U of M Mansfield Library Note		50	Variable	9	4 (1995)	34
Billings Vo-Tech Center Note		876	None	128	95 (1999)	875
Butte Vo-Tech Center Note		3,271	None	468	468 (1998)	3,271
Great Falls Vo-Tech Center Note		316	None	110	100 (1994)	316
Total Higher Education Nonbonded Debt		<u>\$ 5,138</u>		<u>\$ 820</u>		<u>\$ 4,897</u>
TOTAL HIGHER EDUCATION FUNDS						<u>\$ 80,775</u>

Debt service requirements (principal and interest) for long-term notes/bonds payable reported in the General Long-Term Obligations Account Group and Higher Education Funds are as follows (in thousands):

Fiscal Year Ending June 30	General Obligation Debt	Special Revenue Bonds	Higher Ed Revenue Bonds	Non- Bonded Debt	Total Requirements
1992	\$ 15,406	\$ 16,618	\$ 9,079	\$ 854	\$ 41,957
1993	15,065	16,537	7,668	845	40,115
1994	15,864	24,128	7,928	800	48,720
1995	15,078	24,109	7,955	593	47,735
1996	13,643	24,088	7,724	582	46,037
1997+	21,061	279,429	97,019	1,375	398,884
Totals	<u>\$ 96,117</u>	<u>\$384,909</u>	<u>\$137,373</u>	<u>\$ 5,049</u>	<u>\$ 623,448</u>

A summary of changes in long-term notes/bonds payable reported in the General Long-Term Obligations Account Group and Higher Education Funds for the fiscal year ending June 30, 1991, are as follows (in thousands):

	Balance July 1, 1990	Issued	Retired	Balance June 30, 1991
General Obligation Debt	\$ 77,250*	\$ 3,345	\$ 10,545	\$ 70,050
Special Revenue Bonds	207,513	9,625	11,405	205,733
Higher Ed Revenue Bonds	80,770	-	4,892	75,878
Higher Ed Nonbonded Debt	180	4,763	46	4,897
Totals	<u>\$ 365,713</u>	<u>\$ 17,733</u>	<u>\$ 26,888</u>	<u>\$ 356,558</u>

*The balance of \$860,000 in the SRS Building lease-purchase contract at June 30, 1990, was reclassified as a capital lease and is included in Note 12(A) - Leases/Installment Purchases.

D. Refunded Bonds

On October 15, 1990, the Department of Natural Resources and Conservation issued \$9.625 million of Coal Severance Tax Bonds with an interest rate of 6% graduating to 7.2%. The Department used the bond proceeds along with \$1.415 million of certain other funds available to advance refund the 1985 Series B Coal Severance Tax bonds which had an interest rate that varied weekly up to a 12% maximum rate allowed. The purpose of the refunding was to convert the interest rate on the bonds from a variable rate to a fixed interest rate.

The net proceeds from the issuance of the 1990 Series B bonds were used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent until the bonds were called on November 23, 1990. The advance refunding met the requirements of an in-substance defeasance and the 1985 Series B bonds were removed from the State's General Long-Term Debt Account Group.

Because of the variability of the interest rate applied to the refunded bonds, the advance refunding resulted in a reduction of total debt service for the State of a minimum of \$1,848,077 and a maximum of \$7,601,552. The economic gain calculated using an effective rate of 6.98% is a minimum of \$433,077 and a maximum of \$6,186,552.

In prior years, the State of Montana and the Board of Regents of Higher Education have issued general obligation and revenue refunding bonds, the proceeds of which were used to defease certain bond issues already outstanding. The proceeds of the refunding issues were placed in escrow accounts and invested in U.S. Treasury Obligations that, together with interest earned thereon, will be sufficient for future payment of principal and interest on the refunded issues. Accordingly, the debt is considered defeased for financial reporting purposes and the liability for the defeased bonds is not included in the financial statements. At June 30, 1991, the defeased bonds outstanding are as follows (in thousands):

General Obligation	\$ 33,045
Special Revenue	12,745
Higher Education Revenue	<u>57,763</u>
Total	<u>\$103,553</u>

E. Enterprise Funds

(1) Board of Housing (BOH) Revenue Bonds - The Montana Board of Housing (Housing Authority) is authorized to have an aggregate of \$975 million of housing mortgage bonds outstanding. The bonds are payable from mortgage loan repayments and investment earnings. All bonds issued to date are secured by federally insured or guaranteed mortgages. Statutory provisions exist wherein the Governor shall include in the executive budget submitted to the legislature the sum required to fund possible future deficiencies in required reserves; however, the legislature is not legally required to appropriate funding for such deficiencies. None of the outstanding bonds were issued under these provisions. Amounts reported in the Enterprise Fund for the Board of Housing were reproduced from their most recent audit report, which received an unqualified opinion dated August 27, 1991.

BOH Revenue Bonds (net) outstanding at June 30, 1991, were as follows (in thousands):

Program	Series	Amount Issued	Interest Rate (%)	Principal Payments		Balance June 30, 1991
				FY 1992	In Year of Maturity	
Single Family I	1977A	\$ 21,470	4.5-8.0	\$ 665	\$ 1,850 (2008)	\$ 12,580
	1977B	35,060	4.15-8.0	1,170	3,160 (2008)	20,910
	1978A	13,600	5.05-8.0	395	1,115 (2009)	8,365
	1987A	20,000	5.3-8.625	345	1,240 (2018)	16,950
	1987B1-B2	20,000	6.25-9.0	205	1,050 (2019)	17,540
	1988A1-A2	19,999	5.4-8.5	225	3,580 (2019)	19,026
	Subtotal	<u>\$130,129</u>		<u>\$ 3,005</u>		<u>\$95,371</u>
Single Family II	1979A	\$100,000	5.1-6.6	\$ 3,925	\$ 9,670 (2011)	\$ 66,590
	1980A	50,000	7.7-9.0	1,925	5,510 (2012)	33,135
	1982A	55,000	8.5-13.5	-	610 (2006)	7,630
	1983A	30,000	5.25-9.875	460	1,370 (2008)	15,370
	1983B	55,000	8-9.625	-	2,310 (2008)	32,640
	1983C	114,998	5.75-10.7	2,175	11,540 (2010)	61,817
	1984A	75,002	7.0-10.375	1,945	13,680 (2010)	49,626
	1985A	40,000	5.5-9.75	1,375	5,170 (2016)	29,216
	1985B	74,997	5.7-9.75	890	1,715 (2017)	30,709
Subtotal		<u>\$594,997</u>		<u>\$12,695</u>		<u>\$326,733</u>

Single Family III	1988B1-B2	25,000	6.2-8.9	215	1,675 (2020)	24,020
Single Family IV	1989A1-A2	25,000	7.0-9.2	205	2,110 (2020)	24,405
Single Family V	1990A1-A2	25,000	6.2-8.525	120	2,010 (2021)	25,000
Single Family VI	1990B1-B2	25,000	6.2-8.5	-	2,010 (2022)	25,000
Single Family VII	1990C1-C2	25,000	6.55-8.95	-	1,045 (2022)	25,000
Single Family VIII	1991A1-A2	25,000	5.2-8.275	-	1,935 (2022)	25,000
Multifamily	1978A	\$ 4,865	6.125	\$ 45	\$ 645 (2019)	\$ 4,520
	1979A	8,660	5.4-6.875	80	905 (2021)	7,980
	1982A	1,945	12.75	5	220 (2023)	1,920
Subtotal		<u>\$ 15,470</u>		<u>\$ 130</u>		<u>\$ 14,420</u>
TOTAL		<u>\$890,596</u>		<u>\$16,370</u>		<u>\$584,949</u>

Less: Unamortized discounts/premiums (net) (347)

TOTAL BOH BONDS PAYABLE (net) \$584,602

Debt service requirements (principal & interest) for all BOH programs are as follows (in thousands):

<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997+</u>	<u>Total</u>
\$60,268	\$60,604	\$60,445	\$60,514	\$60,942	\$1,087,217	<u>\$1,389,990</u>

(2) Economic Development & Municipal Finance Consolidation Act Bonds (EDB) - This program is directed by the nine-member Board of Investments, administered by the Department of Commerce. This program assists Montana's small businesses and local governments in obtaining long-term, fixed rate financing through private Montana lending institutions. Outstanding obligations are as follows (in thousands):

<u>Program</u>	<u>Series</u>	<u>Amount Issued</u>	<u>Interest Rate (%)</u>	<u>Principal Payments</u>		<u>Balance June 30, 1991</u>
				<u>FY 1992</u>	<u>In Year of Maturity</u>	
Industrial Development Revenue Bonds (Pooled Loan) (1)	1984A-G	\$ 3,650	7.0-10.75	\$ 120	\$ 570 (2006)	\$ 3,195
Industrial Development Revenue Bonds (Pooled Loan) (1)	1985A-L	4,925	6.75-10.1	90	395 (2007)	3,140
Municipal Finance Consolidation Act Bonds (Cash Anticipation Financing) (2)	1987	6,500	4.125-15	1,055	805 (1995)	3,045
Municipal Finance Consolidation Act Bonds (Intermediate Term Capital) (2)	1988	5,000	5.375-15	976	976 (1996)	4,055
Municipal Finance Consolidation Act Bonds (Intermediate Term Capital) (2)	1991	5,000	4.85-15.0	-	500 (2001)	5,000
Municipal Finance Consolidation Act Bonds (Irrigation Program) (2),(3)	1988	4,976	6.60-7.75	90	205 (2013)	5,056
Municipal Finance Consolidation Act Bonds (2)	1990	7,385	7.50	7,385	7,385 (1991)	7,385
Economic Development Bonds (Conservation Reserve Enhancement Program) (4)	1991A-B	7,380	10.0-11.2	-	395 (1999)	7,380
Municipal Finance Consolidation Act Bonds (School District Pooled Refunding Program) (5)	1991	<u>6,234</u>	4.75-6.50	<u>345</u>	160 (2005)	<u>6,234</u>
TOTAL BONDS PAYABLE		\$51,050		\$10,061		\$44,490

Conservation Reserve Enhancement
Program (CRP Notes) (4)

1,180 Variable 1,180 1,180 (1991) 1,180

TOTAL BONDS/NOTES PAYABLE \$52,230 \$11,241 \$45,670

- (1) These bonds, which may not aggregate more than \$75 million, are limited obligations of the Board of Investments payable solely from and secured by certain revenues and assets pledged pursuant to an Indenture of Trust. The bonds do not constitute a debt, liability or legal obligation of the State of Montana. However, if the balance in the "Capital Reserve Account A" falls below the indenture requirement, the Governor is required to request the Legislature to appropriate funds to restore the balance. The Legislature may, but is not legally obligated to, appropriate funds to correct any such deficiency. Principal payments (accrued interest to be added) are due each March 15. Series 1985 J (\$665,000) and Series 1985 B (\$690,000) were recalled on March 15 and December 15, 1988, respectively, without a gain or loss on extinguishment.
- (2) These bonds, which may not aggregate more than \$50 million, were issued to provide funds to finance the purchase of tax and revenue anticipation notes (TRANS) of participating local government units. The bonds are not a debt or liability of the State of Montana. The bonds are limited obligations of the Board of Investments payable solely from repayments of principal and interest on local government TRANS, proceeds of a loan made by the Board of Investments and investment income.
- (3) These bonds were issued to obtain funds for the Board of Investments, State of Montana, to purchase the Refunding Bonds of participating Irrigation Districts for the purpose of prepaying the U.S. Department of Interior, Bureau of Reclamation Projects Loans. The Irrigation Bonds and the interest thereon are payable solely from the collection of a special tax or assessment levied against real property in the Irrigation District. The Irrigation Bonds are not obligations of the State of Montana. However, the Irrigation Bonds are limited obligations of the Board of Investments due to an irrevocable pledge to lend money for deposit by the Trustee of the Irrigation District Pooled Loan Program Reserve Account E in an amount equal to any deficiencies therein on any payment date. The indenture does not permit the issuance of additional bonds.
- (4) These bonds and notes were issued for the purpose of providing funds for the Board of Investments, State of Montana, to make loans to participating farmers and ranchers under its Conservation Reserve Enhancement Program. The Series 1991 Bonds are not in any way a debt or liability of the State of Montana, and neither the full faith and credit, nor the taxing power of the State of Montana is pledged to the payment of the principal of or interest on the Series 1991 Bonds. However, the 1991 Bonds are limited obligations of the Board of Investments.

The Bond Anticipation Notes (BAN) issued in April through June 1991, mature October 1, 1991. The BAN's maturity date will be extended until November 15, 1991.
- (5) These bonds were issued for the purpose of providing funds for the Board of Investments, State of Montana, to purchase the general obligation refunding bonds of 16 participating Montana school districts. The School District Refunding Bonds and the interest thereon are payable from real property taxes levied within the School District. The 1991 Bonds are limited obligations of the Board of Investments.

Debt service requirements (principal & interest) for EDB are as follows (in thousands):

<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997+</u>	<u>Totals</u>
\$15,093	\$6,992	\$7,072	\$7,030	\$7,722	\$26,483	<u>\$70,392</u>

F. Internal Service Fund - Certificates of Participation were issued by the State of Montana to provide the funds to purchase the States' telecommunications system as follows (in thousands):

<u>Description</u>	<u>Series</u>	<u>Amount Issued</u>	<u>Interest Rate (%)</u>	<u>Principal Payments</u>		<u>Balance June 30, 1991</u>
				<u>FY 1992</u>	<u>In Year Of Maturity</u>	
Certificates of Participation	1988	\$6,280	4.75-5.90	\$1,385	\$625 (1994)	<u>\$3,475</u>

Debt service requirements (principal & interest) for the Certificates are as follows (in thousands):

<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>Total</u>
\$1,545	\$1,544	\$643	<u>\$3,732</u>

SCHEDULE OF PRINCIPAL REQUIREMENTS TO MATURITY - REFUNDED ISSUE

	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>TOTAL</u>
1983 Certificates of Participation	\$1,355	\$1,485	\$1,600	<u>\$4,440</u>

G. No-Commitment Debt - Information is presented below for financing authorities participating in debt issues. The State has no obligation for this debt. Accordingly, these bonds and notes are not reflected in the accompanying financial statements.

(1) Montana Health Facility Authority (MHFA) - The MHFA is authorized to issue bonds and notes to finance projects for qualifying health institutions. The obligations issued by MHFA do not constitute a debt, liability, obligation or pledge of faith and credit of the State of Montana. At June 30, 1991 the MHFA had issued bonds and notes as follows (in thousands):

<u>Project</u>	<u>Date of Issue</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
West Mont Home Health Services	June 1985	440	346
Various Loan Projects	December 1985	66,900	39,000
Bozeman Deaconess Foundation	July 1987	16,025	15,155
Various Loan Projects	October 1988	1,461	1,320
St. Peters Community Hospital	March 1989	9,365	8,940
Kalispell Regional Hospital	June 1990	14,475	14,475
Community Provider Pooled Loan	July 1990	5,858	5,858
Deaconess Medical Center	February 1991	18,000	18,000
Deaconess Medical Center	February 1991	18,000	18,000
Sisters of Providence	May 1991	56,535	56,535
Montana Deaconess Medical Center	June 1991	12,010	12,010
Total		<u>\$219,069</u>	<u>\$189,639</u>

(2) Beginning Farm Loan Program - This program replaced the Montana Agricultural Loan Authority upon passage of House Bill 90 by the 1991 Legislature. The Montana Department of Agriculture is authorized to request issuance of bonds by the Montana Board of Investments to finance projects for beginning farmers within the State if it appears, after a properly noticed public hearing, that the project is in the public interest of the State. These non-recourse, industrial development revenue bonds do not constitute a debt, liability, or obligation of the State of Montana. The amount issued and outstanding at June 30, 1991 is as follows:

- (1) Linger Project - issued \$112,200; outstanding \$53,891
- (2) Jorgensen Project - issued \$81,600; outstanding \$64,753.

14. INTERFUND TRANSACTIONS

During the course of normal operations, the State has numerous transactions between funds to finance operations, provide services, construct assets, service debt, etc. Montana statutes include a provision for interfund loans when the expenditure of an appropriation is necessary and the cash balance in the account from which the appropriation was made is insufficient to pay the expenditure. To the extent that certain transactions between funds are not paid or received as of June 30, 1991, interfund receivables/payables (Due From/To Other Funds) are recorded. The schedule below presents all interfund balances outstanding at June 30, 1991, (in thousands) and interfund activity for the fiscal year then ended:

<u>Funds</u>	<u>Interfund Loans</u>		<u>Due From Other Funds</u>	<u>Due To Other Funds</u>	<u>Operating Transfers</u>		<u>Residual Equity Transfers</u>	
	<u>Receivable</u>	<u>Payable</u>			<u>In</u>	<u>Out</u>	<u>In</u>	<u>Out</u>
General	\$ 56,831	\$ 12,700	\$ 29,185	\$ 12,123	\$ 97,079	\$ 115,647	\$ 1,113	\$ -
Special Revenue								
State	44,430	46,615	38,384	19,513	65,344	48,979	-	4,451
Federal	-	36,573	9,043	10,118	263	691	-	3
Debt Service								
Coal Tax Bonds	-	-	8	4703	82	25,748	11,411	-
Long-Range Bldg.	-	-	62	634	15,120	41,772	-	-
Water Development	-	-	-	-	10,244	175	-	8,070
Hwys Revenue Bonds	-	-	-	-	9,741	-	-	-
Hwys Bldg. Complex	-	-	-	-	529	-	-	-
Airport Bonds	-	-	-	-	-	62	-	-
Renewable Resource	-	-	-	-	-	79	-	-

(Continued on Next Page)

<u>Funds</u>	<u>Interfund Loans</u>		<u>Due</u>	<u>Due</u>	<u>Operating</u>		<u>Residual</u>	
	<u>Receivable</u>	<u>Payable</u>	<u>From</u>	<u>To</u>	<u>In</u>	<u>Out</u>	<u>In</u>	<u>Out</u>
			<u>Other</u>	<u>Other</u>				
			<u>Funds</u>	<u>Funds</u>				
<u>Capital Projects</u>								
Long-Range Bldg.	50	-	5	71	1	1,062	-	-
Federal/Private	-	50	-	3	-	-	-	-
Construction Grant	-	-	-	-	1,060	1,030	-	-
Capital Land Grant	-	-	45	-	-	-	-	-
<u>Enterprise</u>								
Housing Authority	-	-	109	132	-	-	-	-
State Comp. Mutual Ins.(New Fund)	-	-	574	690	-	2,256	11,206*	-
State Comp. Mutual Ins.(Old Fund)	-	-	3,311	6	12,765	(653)	-	11,206
Economic Dev. Bonds	-	-	-	15	-	-	-	-
Employees' Grp. Ben.	-	-	968	12	-	-	-	-
Liquor Stores	-	-	803	2,637	-	18,469	-	-
Hail Insurance	-	-	-	8	-	48	-	-
State Lottery	-	-	-	1,187	-	4,197	-	-
MUS Group Insurance	-	-	474	9	-	-	-	-
Prison Ranch	15	-	42	39	-	-	-	-
Uninsured Employers	-	-	7	2	-	279	-	-
Prison Industries	-	15	65	18	-	-	-	-
FWP Snowgroomer Rental	-	-	20	-	-	-	-	-
Historical Soc. Publications	-	-	1	8	48	-	-	-
W. Yellowstone Airport	-	-	-	3	7	-	-	-
Health Facilities Authority	-	-	-	12	-	-	-	-
Local Govt. Audits	-	-	2	37	56	-	-	-
Local Govt. Accting/Mgmt System	-	-	6	10	91	-	-	-
Academy Training	-	-	-	2	-	-	-	-
<u>Internal Service</u>								
Highway Equipment	-	-	533	451	-	-	-	-
Communications	-	-	695	57	78	-	-	-
Admin. Insurance	-	-	5	41	-	-	-	-
Central Data Processing	-	-	1,302	343	341	-	-	-
FWP Equipment	-	-	112	4	126	-	-	-
Motor Pool	-	185	240	81	-	-	-	-
Admin. Prop. & Supply	-	-	168	45	-	-	-	-
Publications & Graphics	-	-	389	64	-	-	-	-
Buildings & Grounds	-	-	58	83	59	-	-	-
Local Govt Admin. Services	-	-	2	5	-	-	-	-
Commerce Central Svcs.	-	-	89	66	-	-	-	-
FWP Warehouse Inventory	-	15	47	2	-	-	-	-
Mail & Messenger	-	150	121	53	-	-	-	-
Investment Division	-	-	55	55	-	-	-	-
DHES Indirect Cost Pool	-	-	147	38	-	-	-	-
Aircraft Operations	-	-	15	2	-	-	-	-
Justice Legal	-	-	41	16	-	-	-	-
OPI Central Services	-	-	90	73	411	-	-	-
FWP Office Supply	-	14	9	3	-	-	-	-
Personnel Training	-	-	6	10	-	-	-	-
PSC Audit Reim.	-	-	1	-	-	-	-	-
Admin. Legal	-	-	5	10	-	-	-	-
Labor Central Services	-	-	-	79	-	-	-	-
<u>Expendable Trusts</u>								
Unemployment Insurance	-	-	-	6,710	-	-	-	-
BN Geraldine Settlement	-	-	1	-	18	-	-	-
Rural Development	-	-	-	3	-	-	-	-
Historical Soc. Gen.	-	-	-	-	-	11	-	-
<u>Nonexpendable Trusts</u>								
Permanent Coal Tax	-	-	4,705	13,768	25,038	47,528	-	-
Land Grants	-	-	135	25,552	-	39,404	-	-
Resource Indemnity	-	-	-	2,383	-	8,159	-	-
Parks, Cultural,	-	-	-	-	-	-	-	-
Aesthetic Projects	-	-	-	517	-	1,896	-	-
BN Geraldine Settlement	-	-	-	1	-	18	-	-
Real Property	-	-	13	-	-	-	-	-
Thomas Teakle Trust	-	-	-	-	-	3	-	-

(Continued on Next Page)

Funds	Interfund Receivable	Loans Payable	Due From Other Funds	Due To Other Funds	Operating Transfers		Residual Equity Transfers	
					In	Out	In	Out
Pension Trusts								
PERS	-	905	1,941	1,643	-	-	-	-
Teachers	-	-	748	31	-	-	-	-
Municipal Police	340	-	2,803	19	-	-	-	-
Unified Firefighters	340	-	3,323	17	-	-	-	-
Sheriffs	225	-	-	13	-	-	-	-
Highway Patrol	-	-	46	8	-	-	-	-
Judges	-	-	44	2	-	-	-	-
Game Wardens	-	-	21	4	-	-	-	-
Volunteer Firefighters	-	-	601	11	-	-	-	-
Agency								
Investment Pool	-	5,000	-	-	-	-	-	-
Employees Defer. Comp	-	-	287	-	-	-	-	-
Land Grant Interest	-	-	-	3	-	-	-	-
Performance Deposits	-	-	3	94	-	-	-	-
Central Payroll	-	-	12,865	2,151	-	-	-	-
Custodial Accounts	-	9	65	51	-	-	-	-
Unissued Warrants	-	-	2	1,665	-	-	-	-
Child Support Collections	-	-	35	730	-	-	-	-
Unclaimed Property	-	-	4	-	-	-	-	-
Intergovernmental	-	-	4	20	-	-	-	-
A & E Advances	-	-	47	17	-	-	-	-
Uncleared Collections	-	-	11	5,822	-	-	-	-
Bad Debts	-	-	1	88	-	-	-	-
Higher Education								
Current Funds								
General Operating	1,650	-	1,550	3,157	116,639	327	-	-
Designated	-	-	1,340	1,413	767	1,401	5	-
Auxiliary	-	-	666	934	1,026	6,900	-	5
Restricted	-	1,650	617	950	290	107	-	-
Fiduciary								
Student Loans	-	-	18	64	4	6	-	-
Endowments	-	-	-	5	79	2	-	-
Agency	-	-	3,637	1,591	-	-	-	-
Plant								
Unexpended	-	-	378	85	3,022	2,037	-	-
Renewal & Replacement	-	-	156	211	2,190	545	-	-
Retirement of Indebtedness	-	-	177	182	9,482	3,815	-	-
Totals	\$103,881	\$103,881	\$123,488	\$123,488	\$372,000	\$372,000	\$ 23,735	\$ 23,735

* These residual equity transfers are reflected in contributed capital on the balance sheet.

15. FUND DEFICITS

The following funds have a deficit fund balance/retained earnings found on the operating statements for June 30, 1991, (in thousands):

Enterprise Fund Type	Amount
State Comp. Mutual Ins. (New Fund)	(9,309)
State Comp. Mutual Ins. (Old Fund)	(461,560)
Department of Agriculture	(177)

Internal Service Fund Type	Amount
Local Government Admin	(17)
DHES Indirect Cost Pool	(180)
Administration - Legal	(14)
Labor Central Services	(56)

Higher Education Fund Type	Amount
General Operating Subfund	(11,793)

The deficit retained earnings in the new and old State Compensation Mutual Insurance Funds are due to recording the expense for estimated claims including claims incurred but not reported. Capital contributed to the new fund provides that fund with \$2.7 million in fund equity at June 30, 1991 (See Notes 10 and 17 for further discussion of both funds). The deficit fund balance in the General Operating Subfund of the Higher Education Fund is due to the expense associated with the recording of compensated absences.

16. PROPRIETARY RESERVED FUND BALANCES

Proprietary fund balances are reserved as follows (in thousands): Enterprise - Reserved for Debt Service \$64,231; Reserved for Employee Benefits \$11,583; and Reserved for Future Claims \$1,626. Internal Service - Reserved for Future Claims \$2,810.

17. SEGMENT INFORMATION

Selected financial information concerning all enterprise operations for the fiscal year ended June 30, 1991, is as follows (in thousands):

	Housing Authority	St. Comp. Mutual Insurance (New Fund)	St. Comp. Mutual Insurance (Old Fund)	Economic Development Bonds	Employees Group Benefits
Operating Revenues:					
Charges for Services	\$ 38	\$ 25	\$ -	\$ 493	\$ 27,756
Investment Earnings	57,991	3,626	925	2,984	1,210
Contrib./Premiums	-	102,454	-	-	-
Taxes	-	-	-	-	-
Other Revenues	22	28	43	-	20
Operating Expenses:					
Depreciation	29	121	-	5	3
Amortization	-	-	-	-	-
Other	52,928	113,065	241,234	4,227	29,567
Operating Income (Loss)	5,094	(7,053)	(240,266)	(755)	(584)
Nonoperating Revenues (Expenses)	-	-	-	-	-
Oper. Trans. In (Out)	-	(2,256)	13,418	-	-
Net Income (Loss)	\$ 5,094	\$ (9,309)	\$ (226,848)	\$ (755)	\$ (584)
Current Assets	\$ 11,322	\$ 108,489	\$ 4,545	\$ 3,475	\$ 6,883
Current Liabilities	(7,665)	(18,183)	(32,655)	(1,728)	(755)
Net Working Capital	\$ 3,657	\$ 90,306	\$ (28,110)	\$ 1,747	\$ 6,128
Total Assets	\$658,735	\$ 112,513	\$ 4,549	\$ 48,261	\$ 15,550
Total Liabilities	\$592,576	\$ 109,803	\$ 466,109	\$ 47,411	\$ 6,128
Fund Equity	\$ 66,159	\$ 2,710	\$(461,560)	\$ 850	\$ 9,422
Long-Term Obligations	\$584,911	\$ 91,620	\$ 433,454	\$ 45,683	\$ 5,373
Cur. Yr. Capital Cont.	\$ -	\$ 12,019	\$ -	\$ -	\$ -
Acquisition of Fixed Assets	\$ 4	\$ 1,094	\$ -	\$ 6	\$ 31
Disposal of Fixed Assets	\$ 2	\$ -	\$ 880	\$ 2	\$ 20

	Liquor Stores	Hail Insurance	State Lottery	Other* Enterprise	Total Enterprise
Operating Revenues:					
Charges for Services	\$ 37,228	\$ -	\$ 23,936	\$ 4,820	\$ 94,296
Investment Earnings	-	311	40	594	67,681
Contrib./Premiums	-	2,730	-	11,341	116,525
Taxes	9,385	-	-	-	9,385
Other Revenues	1	-	7	168	289
Operating Expenses:					
Depreciation	86	2	119	256	621
Amortization	-	-	198	1	199
Other	31,763	4,799	19,471	16,407	513,461
Operating Income (Loss)	14,765	(1,760)	4,195	259	(226,105)
Nonoperating Revenues (Expenses)	-	-	2	98	100
Oper. Trans. In (Out)	(18,469)	(48)	(4,197)	(77)	(11,629)
Net Income (Loss)	\$ (3,704)	\$ (1,808)	\$ -	\$ 280	\$ (237,634)
Current Assets	\$ 7,623	\$ 6,440	\$ 1,758	\$ 23,925	\$ 174,460
Current Liabilities	(5,017)	(1,923)	(2,192)	(862)	(70,980)
Net Working Capital	\$ 2,606	\$ 4,517	\$ (434)	\$ 23,063	\$ 103,480

	<u>Liquor Stores</u>	<u>Hail Insurance</u>	<u>State Lottery</u>	<u>Other* Enterprise</u>	<u>Total Enterprise</u>
Total Assets	\$ 9,197	\$ 6,446	\$ 2,292	\$ 17,958	\$ 875,501
Total Liabilities	\$ 5,275	\$ 3,558	\$ 2,292	\$ 3,691	\$1,236,843
Fund Equity	\$ 3,922	\$ 2,888	\$ -	\$ 14,267	\$ (361,342)
Long-Term Obligations	\$ 258	\$ 1,635	\$ 100	\$ 2,829	\$1,165,863
Cur. Yr. Capital Cont.	\$ -	\$ 8	\$ -	\$ 65	\$ 12,092
Acquisition of Fixed Assets	\$ 329	\$ 19	\$ 48	\$ 527	\$ 2,058
Disposal of Fixed Assets	\$ 160	\$ -	\$ 57	\$ 188	\$ 1,309

1. The Housing Authority provides financing to qualified individuals to purchase residential housing by issuing bonds and carrying federally insured mortgage notes.
2. State Compensation Mutual Insurance (New Fund) provides benefit payments to workers injured after June 30, 1990, and accounts for employer contributions to the fund (See Notes 10 and 15).
3. State Compensation Mutual Insurance (Old Fund) provides benefit payments to workers injured prior to July 1, 1990 (See Notes 10 and 15).
4. The Economic Development Bond Program, administered by the Board of Investments, assists Montana's small businesses and local governments in obtaining long-term, fixed-rate financing through private Montana lending institutions.
5. The Employees Group Benefits fund receives non-higher education unit employee withholdings and State contributions to the medical/dental self-insurance plan.
6. The Liquor Division of the Department of Revenue administers the State Liquor operations (Liquor Stores). This fund accounts for liquor licensing activities and the sale and distribution of alcoholic beverages.
7. The Hail Insurance fund provides benefit payments to producers for crop acreage insured and accounts for premium assessments paid (See Note 10).
8. The State Lottery accounts for the operations of Montana's lottery which began in June 1988.

* Other Enterprise is composed of the following funds (listed by administering agency):

<u>Department of Agriculture</u>	<u>Fish, Wildlife and Parks</u>	<u>Commissioner of Higher Ed.</u>
Department of Agriculture	FWP Snowgroomer Rental	MUS Group Insurance
<u>Department of Commerce</u>	<u>Montana Historical Society</u>	<u>Montana State Prison</u>
Health Facilities Authority	Historical Society Publications	Prison Ranch/Industries
West Yellowstone Airport		
Local Government Audits	<u>Department of Labor and Industry</u>	<u>Fire Services Training School</u>
Local Government Accounting and Management System	Subsequent Injury	Fire Services Training School
	Uninsured Employers	
<u>Department of Institutions</u>		<u>Department of Justice</u>
Women's Prison Industries		Academy Training

18. CONTRIBUTED CAPITAL

During fiscal year 1991, contributed capital changed by the following amounts (in thousands):

	<u>ENTERPRISE FUND</u>	<u>INTERNAL SERVICE FUND</u>
Begin. Bal. - July 1, 1990	\$ 3,690	\$ 2,808
Additions:		
Contrib. Capital Transfers-in	11,278	137
Fixed Assets Transferred From Genl. Fixed Assets Acct Group	19	-
Deletions:		
Contrib. Capital Transfers-out	-	(83)
Ending Bal. - June 30, 1991	<u>\$ 14,987</u>	<u>\$ 2,862</u>

19. NONEXPENDABLE TRUST FUNDS' INVESTMENT INCOME

Investments are recorded in Nonexpendable Trust Funds using the full accrual basis of accounting. However, certain investment earnings attributable to these trusts are transferred elsewhere, as summarized below:

<u>Nonexpendable Trust Fund</u>	<u>Reporting of Investment Earnings</u>
Permanent Coal Tax	Permanent Trust and In-State Investment Accounting Entities - Investment Earnings are distributed 85% to the General Fund and 15% to the Public School Equalization Account for fiscal year 1991.
Resource Indemnity	Resource Indemnity Investment earnings are distributed to the State Special Revenue Fund as follows: \$175,000 to the Environmental Contingency Account; the remainder of the investment earnings are distributed thirty percent to the Water Development State Special Revenue Account, twelve percent to the Hazardous Waste/CERCLA Special Revenue Account, eight percent to the Renewable Resource Development Account, forty-six percent to the Reclamation and Development Grants Account, and four percent to the Environmental Quality Protection Account.
Parks, Cultural and Aesthetic Projects	Investment earnings are distributed to the State Special Revenue Fund as follows: two-thirds to the Department of Fish, Wildlife and Parks for the acquisition and maintenance of parks; and one-third to the Montana Arts Council for cultural and aesthetic projects.
Land Grants	Ninety-four percent of investment earnings are transferred to the State Special Revenue Fund for the Office of Public Instruction to distribute to public schools; five percent is distributed to Higher Education Units (Current and Plant Funds); and one percent to the Department of Institutions (General Fund and State Special Revenue Fund).
Real Property	All investment earnings are transferred to the State Special Revenue Fund for use by the Department of Fish, Wildlife and Parks to operate, maintain and develop its real property.
Thomas Teakle	Investment earnings are transferred to the State Special Revenue Fund for the Montana Historical Society's library acquisitions.
BN Geraldine Settlement	All investment earnings are transferred to the BN Settlement Expendable Trust Fund.

20. CONTINGENCIES

A. Litigation - The Crow Tribe filed suit in 1978 in federal district court seeking a declaration that Montana's coal severance and gross proceeds taxes are invalid as applied to the production of coal on the Crow Reservation and to the production of coal owned by the Tribe located in an off-reservation area, known as the "Crow ceded area" or "ceded strip", which lies roughly between the northern boundary of the reservation and the Yellowstone River. The amount of coal reserved falling within these categories has not been precisely determined. The taxes were alleged to be invalid under a variety of theories, of which the most prominent were that the state taxes conflict with federal policy by preventing the marketing of Crow coal and infringe on tribal sovereignty by depriving the Tribe of revenue needed to provide governmental services to the Crow people. In addition to a declaration that the taxes were invalid, the Tribe sought restitution for an amount equal to the severance and gross proceeds taxes paid by Westmoreland Resources, Inc. (Westmoreland), the only company currently mining coal claimed by the Tribe, together with the interest which accrued to the Coal Severance Tax Trust Fund on the amount of taxes paid.

In January 1983, the court ordered Westmoreland's future severance tax payments placed in escrow pending the outcome of the litigation. The State has received no severance tax payments from Westmoreland with respect to the coal mined on the ceded strip since the entry of this order. Prior to 1983, Westmoreland's annual severance tax payments varied from a low of \$5.407 million in 1976 to a high of \$7.078 million in 1979.

In June 1987, the Ninth Circuit Court of Appeals ruled that Montana is preempted from applying its severance and gross proceeds taxes on coal within the ceded strip held in trust for the Crow Tribe and on coal mined on the reservation. In August 1987, the State docketed an appeal of the decision to the United States Supreme Court, and in January 1988, that Court summarily affirmed the Court of Appeals' judgment.

As a result of the Supreme Court's affirmance, two principal issues remained in the case, one of which has been resolved. The first issue involved the appropriate disposition of the escrowed moneys, to which the State disclaimed any interest after the Supreme Court's decision. The district court concluded in September 1988 that these moneys should be paid to the United States in trust for the Tribe. The escrowed funds totaling \$30.1 million were distributed in May 1989 to the United States.

The second issue, which remains to be resolved, is the Tribe's claim for tax moneys paid by Westmoreland to the State but not escrowed and Westmoreland's claim for the same amounts. The State requested summary judgment with respect to the Tribe's claim for the nonescrowed monies in November 1989, but its motion was denied in

December 1990. The State thereafter sought certification from the District Court to appeal such denial pursuant to 28 USC Section 1292(b), and certification was granted by the Ninth Circuit in July 1991. The issue on appeal is whether the Tribe's fourth amended complaint, which seeks recovery of the nonescrowed monies, states a claim upon which relief may be granted. The State believes its appeal has merit, but the issue is novel and its resolution cannot be predicted with certainty.

The sum of all the nonescrowed coal severance tax monies, exclusive of interest, is approximately \$48 million. If interest on such monies is eventually awarded, their amount will increase substantially. In May 1989, the Tribe estimated the State's liability for interest at approximately \$110 million. If the State is eventually held liable for paying interest, the actual amount will depend upon the interest rate judged appropriate and the time period over which it is calculated. Consequently, in the event the State is held liable for paying the interest, the actual amount may vary significantly from the Tribe's last estimate.

In October 1984, Butte-Anaconda & Pacific Railway company (BA&P) filed an application with the ICC to abandon and discontinue service over its entire line of railroad. BA&P donated the line to the State of Montana, Department of Commerce. The State leased the line to Rarus for operation. On March 14, 1985, Rarus petitioned the ICC under 49 USC Section 10505 to exempt its proposed actions from the provisions of federal law to lease and operate BA&P rail lines. The Rail Labor Executives Association (RLEA) opposed the Rarus petition arguing the transaction required the imposition of labor protection conditions. The 9th Circuit Court of Appeals remanded the matter to the Great Falls Federal District Court following a U.S. Supreme Court ruling on a case analogous to this matter. The Federal Court has yet to act on this matter. Among the ramifications of the ICC imposition of labor protection conditions will be the declaration of the agreement between BA&P and the Montana Department of Commerce null and void. In addition, it is reasonably possible the State may be severally liable for further penalties along with other defendants in the case; however, the amount of these penalties, if any, cannot be estimated at this time.

In May 1989, the U.S. Supreme Court decided in *Davis v. Michigan* that a state may not discriminate in the taxation of members of a federal as opposed to a state retirement system. Subsequently, *Sheehy et al., v. State of Montana, Department of Revenue* was filed in Montana District Court. The action seeks refunds of state income taxes paid on federal retirement benefits. In addition to the law suit, approximately 6,005 claims for a refund have been filed by federal retirees with the Montana Department of Revenue. In July 1990, the District Court denied the plaintiffs' requests for refunds. That decision was appealed to the Montana Supreme Court where it is presently pending. The State estimates the total amount of taxes subject to refund is approximately \$20 million including interest.

The State is a defendant in numerous lawsuits involving tort claims. Management of the Risk Management and Tort Defense Division evaluated, on a case-by-case basis, the unpaid property and general liability claims filed with the State for the purposes of assessing the probability and estimating the amount of the State's potential liability related to these claims. Management's assessment does not include administrative and legal costs to defend such claims. Based upon this evaluation, management estimates that as of June 30, 1991, the Administration Insurance Internal Service Fund has a reasonably possible liability of \$7.382 million for these claims.

B. Federal Contingencies:

Federal Financial Assistance - The State receives federal financial assistance for specified purposes which are subject to review and audit in accordance with the Single Audit Act of 1984. Any disallowances resulting from these audits would become the liability of the State. There are no disallowances reported as of June 30, 1991.

USDA Food Stamp Coupons/Commodities - The State had custodial responsibility for \$10,039,000 of USDA food stamp coupons and \$1,849,635 in commodities as of June 30, 1991, for which the State is liable in the event of loss. In fiscal year 1991, Montana issued \$44,876,481 in food coupons and distributed \$4,330,721 in commodities.

Social Security - The Social Security Administration (SSA) has assessed the State \$39.1 million plus accrued interest at 6 percent since March 1988 for the alleged failure to withhold and forward social security contributions for part-time employees for the years 1984-1986. Montana has objected to the legal basis for the assessment as well as its mathematical calculation. The State believes the potential liability to be between \$150,000 and \$1,400,000.

Gain Contingencies - Certain natural resource and corporation tax assessments are not reported on the State's financial statements because they are being protested either administratively or in a court of law. As of June 30, 1991, the following assessments (by fund type) were outstanding (in thousands):

<u>Taxes</u>	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Nonexpendable Trust</u>
Corporation	\$19,633	\$ 9,173	\$ 3,380	\$ -
Coal Severance	428	882	26	1,442
Oil & Gas Severance	459	-	-	-
Resource Indemnity	-	-	-	1,124
Totals	<u>\$20,520</u>	<u>\$10,055</u>	<u>\$ 3,406</u>	<u>\$ 2,566</u>

Collectibility of these contingencies is dependent upon the decisions of the court, other authorities, or agreed upon settlements.

21. SUBSEQUENT EVENTS

On July 1, 1991, the Board of Housing issued \$25,000,000 in bonds representing Single Family IX Program Funds, 1991 Series 8-1 and 8-2. The bonds issued were \$24,000,000 of special obligation bonds of the Board of Housing and \$1,000,000 of subordinate bonds which are general obligation bonds of the Board.

On July 15, 1991, the Board of Investments issued \$142,095,000 in Payroll Tax Bonds (Workers' Compensation Program Series 1991). The Series 1991 Bonds are limited obligations of the State of Montana payable solely from and secured by certain payroll tax revenues.

On August 1, 1991, the Montana Health Facility Authority (MHFA) issued \$7,000,000 in Hospital Facilities Revenue Bonds. The obligations issued by MHFA do not constitute a debt, liability, obligation or pledge of faith and credit of the State.

On August 29, 1991, the Board of Investments issued \$4,485,000 in Municipal Finance Consolidation Act Bonds, Series 1991, under the Montana Cash Anticipation Financing Program. The Series 1991 Bonds are not a debt or liability of the State and neither the faith and credit nor the taxing power of the State is pledged to the payment of the obligations of the Board.

On September 1, 1991, the Montana Health Facility Authority issued \$32,650,000 in Adjustable Rate Hospital Revenue Bonds SAVRS, Series 1991C; \$7,000,000 in Hospital Revenue Bonds, Series 1991D; and \$3,914,000 in taxable Revenue Bonds, Series 1991A/B.

On October 1, 1991, the Board of Housing redeemed at par or 100% of their compounded value, \$5,129,681 of Single Family II bonds, using proceeds from the Single Family IX bond issue. An escrow deposit of \$123,353 from the Housing Trust Fund was required by the Single Family IX Program bond issue.

On October 9, 1991, the Department of Natural Resources and Conservation issued \$21,735,000 in Coal Severance Tax Bonds (1991 Refunding Series A) for the Broadwater Power Project. Proceeds from the sale of these bonds, together with certain funds on hand, will be used to fully redeem the \$22,200,000 outstanding Broadwater Power Project Bonds, Series 1987A.

On November 6, 1991, the State issued \$85,000,000 in Tax and Revenue Anticipation Notes, Series 1991, due June 25, 1992. The proceeds of the Notes will provide cash to support expenditures from the general fund, pending the receipt of taxes and revenues, for the fiscal year ending June 30, 1992.

22. SUBSEQUENT CONTINGENCY ISSUES

On October 31, 1991, a group of individuals and unincorporated associations filed suit in Helena District Court in an attempt to void budget cuts and reversion targets directed by Executive Order 28-91. The suit asked the Court to grant an injunction and to declare unconstitutional Section 17-7-140, MCA, which provides the Governor with the authority to reduce State agency budgets in response to a revenue shortfall. The complaint alleged that the implementation of this law results in a violation of the principle of separation of governmental powers, and under the Montana constitution, is an improper delegation, to the executive branch of government, of the legislature's exclusive power to appropriate funds. A preliminary injunction hearing was held on November 14, 1991. On November 20, 1991, the presiding judge issued an order decreeing Section 17-7-140, MCA, provides for an unconstitutional delegation of the legislature's authority to the Governor. It is not known at this time how the State will respond to this order. The Governor will likely call a special session of the legislature to address the projected budget deficit if the State is unable to obtain relief from this order through further litigation within a relatively short time period.

In the case Sheehy et al., v. State of Montana, Department of Revenue (See Note 20A), the Montana Supreme Court issued an opinion on November 14, 1991, affirming the decision of the District Court denying the plaintiffs' requests for refunds of state income tax on federal retirement benefits.

Agency Response

DEPARTMENT OF ADMINISTRATION
DIRECTOR'S OFFICE



STAN STEPHENS, GOVERNOR

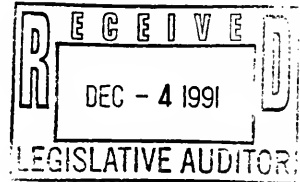
MITCHELL BUILDING

STATE OF MONTANA

(406) 444-2032

HELENA, MONTANA 59620

December 2, 1991



Mr. Scott A. Seacat, Legislative Auditor
Office of the Legislative Auditor
State Capitol Building
Helena, Montana 59620

Dear Mr. Seacat:

We have reviewed your report containing the general purpose financial statements of the State of Montana for the fiscal year ended June 30, 1991, and your related audit opinion. We did not identify any items in the report that require our comment.

I thank you for the opportunity to review and comment on your report, and for the professional manner in which your staff conducted the audit. Your office has contributed greatly towards the successful issuance of a timely comprehensive annual financial report for the State of Montana.

Sincerely,

A handwritten signature in cursive script that reads "Bob Marks".

Bob Marks
Director

